

**AGENCY FOR INTERNATIONAL DEVELOPMENT  
PPC/CDIE/DI REPORT PROCESSING FORM**

ENTER INFORMATION ONLY IF NOT INCLUDED ON COVER OR TITLE PAGE OF DOCUMENT

**1. Project/Subproject Number**

497-0357

**2. Contract/Grant Number**

497-C-00-98-00045-00

**3. Publication Date**

April 2003

**4. Document Title/Translated Title**

Partnership for Economic Growth (PEG) **Project Annual Report** on Technical Assistance to USAID and the Government of Indonesia, Year 2002

**5. Author (s)**

1. C. Stuart Callison, Chief of Party
2. PEG Project Advisors
- 3.

**6. Contributing Organization (s)**

Nathan/Checchi Joint Venture/PEG Project

**7. Pagination**

159

**8. Report Number**

PEG AR2002

**9. Sponsoring A.I.D. Office**

ECG, USAID/Jakarta

**10. Abstract (optional - 250 word limit)**

**11. Subject Keywords (optional)**

- |                    |                  |
|--------------------|------------------|
| 1. Indonesia       | 4. Annual Report |
| 2. Economic Growth | 5.               |
| 3. PEG Project     | 6.               |

**12. Supplementary Notes**

**13. Submitting Official**

C. Stuart Callison, Chief of Party

**14. Telephone Number**

011-62-21-520-1047

**15. Today's Date**

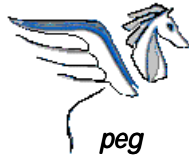
May 12, 2003

.....DO NOT write below this line.....

**16. DOCID**

**17. Document Disposition**

DOCRD [ ] INV [ ] DUPLICATE [ ]



Partnership for Economic Growth

PROJECT ANNUAL REPORT  
ON TECHNICAL ASSISTANCE TO  
USAID AND THE GOVERNMENT OF  
INDONESIA  
YEAR 2002

**Submitted to:**

USAID/ECG, Jakarta, Indonesia

**Submitted by:**

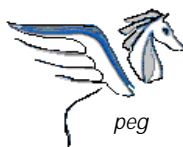
Nathan/Checchi Joint Venture

Partnership for Economic Growth (PEG) Project  
Under USAID Contract #497-C-00-98-00045-00  
(Project #497-0357)

April 2003

## **TABLE OF CONTENTS**

<b><u>Section</u></b>	<b><u>Page</u></b>
PEG 2002 Annual Report Summary	1 - 52
PEG TA Team Annual Results Matrices	53 - 83
PEG TA Team Individual Annual Progress Reports	84 - 147
PEG Project Annual Training Summary	148 - 154
PEG Project Small Grants Activity Report	155 - 158



## Partnership for Economic Growth

Suite 304, Setiabudi Atrium  
Plaza Setiabudi  
Jl. HR. Rasuna Said, Kuningan  
Jakarta 12920, Indonesia  
Tel.: 520 1047 Fax: 521 0311  
Website: [www.pegasus.or.id](http://www.pegasus.or.id)

### 2002 ANNUAL REPORT SUMMARY

3/25/03

**Contractor:** Nathan/Checchi Joint Venture

**Contract No.** 497-C-00-98-00045-00, Partnership for Economic Growth (PEG)

**Reporting Period:** January 1 through December 31, 2002

**From:** C. Stuart Callison, Chief of Party

This summary report contains a brief general summary of PEG performance, followed by five main sections, the fourth of which summarizes performance by Intermediate Result (IR):

General Summary of Performance in 2002, page 2

1. Contract Final Objective, page 5
2. Expected Results, page 6
3. Current Core Activities, including a Consolidated PEG SOW and Work Plan, page 6
  - a. Macro/Policy Advisor at Coordinating Ministry/Finance/Bappenas—Advisor: William Wallace, page 7
  - b. Technical Assistance on Macroeconomic Policies in the Coordinating Ministry for Economic Affairs—Advisor: Timothy Buehrer, page 8
  - c. Finance/Banking Advisor at the Coordinating Ministry for the Economy/Ministry of Finance—Advisor: Peter McCawley, page 10
  - d. Macroeconomic Advisor at Bappenas—Advisor: Kelly Bird, page 11
  - e. Real Sector Advisor at Bappenas—Advisor: Stephen V. Marks, page 13
  - f. Labor Advisor at Bappenas—Advisor: Chris Manning, page 15
  - g. International Trade Specialist, Ministry of Industry and Trade—Advisor: Steve Magiera, page 17
  - h. Domestic Trade Advisor, Ministry of Industry and Trade—Advisor: David J. Alan Ray, page 21
  - i. Resident Advisor on Monetary and Exchange Rate Policy and Research, Bank Indonesia—Advisor: William “Ted” James, page 26
  - j. Small Scale Adviser, Bank Indonesia and Other Institutions—Advisor: Thomas A. Timberg, page 28

- k. Expert on Assistance to Information, Communications and Technology Activities (ICT), including the Ministry of Communications and Information—Advisor: Idris Sulaiman, page 31
  - l. Grants Advisor/Project Administrator—Advisor: Jeffrey J. Povolny, page 33
  - m. Chief of Party—COP: C. Stuart Callison, page 36
4. Performance During the Year, a specific list of accomplishments under each of the six USAID Intermediate Results (IRs) targeted by the PEG activity:
    - 1) Sound economic policy and institutions, page 37
    - 2) A conducive legal and regulatory framework, page 42
    - 3) Open access to economic opportunity, page 45
    - 4) Knowledgeable public participation in economic decision-making, page 48
    - 5) Financial sector restructured and governance improved, page 49
    - 6) Public sector policy and governance improved, page 50
  5. Summary of PEG Training Activities, page 51

### **General Summary of Performance in 2002**

The PEG activity works with several GOI ministries and agencies: the National Development Planning Agency (Bappenas), Office of the Coordinating Minister for Economic Affairs, the Ministry of Finance, Ministry of Industry and Trade (MOIT), Ministry of Communications and Information, Bank Indonesia, several agencies concerned with promoting small and medium scale enterprises, and a number of local NGOs.

The **National Development Planning Agency (Bappenas)** is responsible for identifying the key policy and budgetary challenges facing the government. PEG works primarily on issues related to **fiscal sustainability**, investment and labor relations. It contributed significantly to the development of the **macro-framework** for this year's and next year's budgets. The macro-framework for 2003/04 was made an explicit element of the IMF LoI issued in mid 2002 as it reflected Government of Indonesia ownership of the macroeconomic/fiscal strategy being followed. In addition the PEG team has raised and worked on many issues, including taxes, subsidies, expenditure allocations, asset sales and the macroeconomic risks raised by decentralization. It has helped Bappenas to identify the **impact of budgetary decisions** on other variables and assess the factors determining Indonesian **inflation and the exchange rate**. The models PEG helped Bappenas develop underlie the government's macro-framework and assist in promoting dialogue on effective policy as Bappenas along with the Ministry of Finance and Bank Indonesia sit on key policy making committees. Indonesia's economic recovery depends on improving the **investment climate**, which has been elevated to the highest economic policy priority in 2003. PEG has contributed to the proposed **Investment Law** and implementing regulations that would level the playing field between foreign and domestic investors, including providing "national treatment," and other investor guarantees, reducing ownership restrictions, and streamlining the investment approval process. PEG has also worked on consolidating investment incentives and the corporate debt-restructuring program. **Labor policy** is critical to reestablishing sustained and sustainable growth. The key issue is how to reconcile the need for economic growth and hence employment, which are fundamental for improving the welfare of working people and especially the poor, with the mushrooming demands for greater social support and protection of the poor. The PEG team is working with Bappenas and the Economics Coordinating Ministry to help design labor policies favorable to investment and growth, and hence to employment expansion and poverty alleviation, with special attention to the employment

impacts of proposed **labor laws** and **minimum wage setting** provisions. The recently passed Labor Relations Law reflects PEGs early support for research and improved understanding by unions and employers of the issues involved. PEG/Bappenas consultants are playing a central role in assisting the government and foreign donors establish a **Bali response coordinating team** for economic assistance to Bali, especially in the areas of **security and income support**, following the tragic bombing there in October 2002.

PEG work at the **Office of the Coordinating Minister for Economic Affairs and the Ministry of Finance** has focused on four topics: 1) **freezing terrorist assets and money laundering** legislation; 2) budget and **budget financing** strategies; 3) promoting **tax and customs administration reform**; and 4) the **economic implications of the terrorist attacks** on the world and Indonesian economies. PEG continued to support efforts in the Coordinating Ministry to develop a **poverty reduction strategy** and the efforts of the USAID/ECG Food Policy team to counter protectionist arguments for raising **wheat flour and rice tariffs**, to hold down the prices of basic goods and reduce poverty. A PEG consultancy done in cooperation between Bappenas and the Coordinating Ministry worked out the nature of the key issues facing the Indonesian government in the financial sector, that is banking and capital markets. This work has proven very helpful to educating policy makers and focusing follow on efforts. PEG work for the Coordinating and Finance Ministries has often focused on providing assistance to these Ministers in terms of their preparation for and presentation to international audiences at home and abroad. In 2002, PEG worked with these Ministries to develop strategies to improve capabilities in these areas.

PEG consultants in the **Ministry of Industry and Trade (MOIT)** are helping to promote Indonesian competitiveness to take advantage of **free and open international trade and investment**, building capacities to develop sound economic policies in market access, regional trade arrangements, reducing trade barriers and maintaining free market policies. The PEG activity has been instrumental in aiding the Government maintain the momentum of **trade policy reforms**, despite political pressures from the economic crisis. Tariffs have been reduced by nearly 50 percent over the past six years and NTBs have nearly been eliminated. Backsliding has occurred for only a few sensitive commodities that are heavily subsidized in developed countries. Indonesia participates actively in **multilateral trade institutions**, including APEC, ASEAN, and the WTO. The Project has provided technical assistance on interpreting multilateral agreements, helped Indonesia understand areas where it might stand to gain from such agreements, and provided training abroad on technical issues related to the agreements. PEG has been particularly active in supporting Indonesia's participation in the **WTO services negotiations**. Services represent over 30 percent of the Indonesian economy and PEG reports on regulatory restrictions affecting foreign providers of 20 services sectors, including socially important sectors such as education and health, are regularly used by Indonesia's interagency team on services. The project is now moving into a second stage by supporting efforts of individual line ministries to unilaterally deregulate some services sectors. PEG also completed major studies on **Indonesian competitiveness** abroad, the Indonesian **textile and apparel industry**, and the need for **maritime port reforms** and prepared policy memoranda on **pre-shipment inspection** and **customs service reform**.

PEG is also helping MOIT continue the deregulation process, particularly in the regions and public sectors such as ports and shipping, while socializing the importance of **free, open and competitive internal markets in the decentralizing era**. Assistance has focused upon developing institutional and legislative arrangements to prevent the proliferation of competition- and trade-distorting regulations at the local level. As a direct result of these

efforts the MOIT is developing, with PEG assistance, a **new law that would prohibit all forms of tariff and non-tariff barriers in domestic trade**. Also as a result of PEG work, the MOIT is considering developing at the national level a more effective **supervisory framework for local regulations**. In the regions, PEG-MOIT, along with counterparts in MOIT and regional universities, has played a pioneering role in socializing the principles of good local regulations and developed a **manual for regulatory review**. This has included the fundamentals of regulatory review as well the appropriate use of user-charges and taxes. This assistance has benefited from a number of PEG Small Grants that have supported the analysis of nuisance regulations, taxes and levies and the problems of restrictions on trade in internal markets.

In the **Ministry of Communications and Transport** PEG-MOIT has been instrumental in getting Indonesia to adopt a pro-competition **telecommunications regulatory framework** that is based on international best practices. PEG-MOIT provided a strategy for compensating owners of PT Telecom and PT Indosat for changes in their licensing agreements. This strategy allowed a new license for a competitor in domestic communications service to move forward. In the case of **universal service**, PEG-MOIT has developed a model for expanding telecommunications service into rural areas that depends heavily on the private sector. In the case of **interconnection**, the PEG Project worked closely with the Indonesian private sector on a new decree that will allow new competitors in the fixed and cellular telephone market to interconnect with the monopoly incumbent on fair and competitive terms. Finally, the PEG Project was instrumental in aiding the Government and private sector to reach a consensus on the establishment of an **independent regulatory body (IRB) for telecommunications**. Many believe that this is the most important single step that the Government can take to attract foreign investment into telecommunications.

In the **Ministry of Communications and Information** the PEG Project has made a substantial contributions 1) to the implementation of **five-year National Information and Communications Technology (ICT) Action Plan**, 2) to various small business, industry and community ICT activities in collaboration with local and other donor organizations and 3) to raising awareness of issues relating to **e-commerce, e-government, cyberlaw, cybersecurity** and combating **cyber crime**.

In **Bank Indonesia (BI)** PEG has been providing support for **small business development** by improving the functioning of the regulatory and financial services, and to a lesser extent business development service (BDS) institutions with which small business must deal. PEG has supported the expansion of small business banks and the development of sound prudential regulation, including the **external audit of rural banks**, the establishment of a **Credit Reference Bureau**, a rural bank **Credit Rating Agency**, and promoting **SME lending** on competitive market principles. The PEG SME credit advisor also organized a pilot effort for regulating and promoting savings and loan cooperatives in Jember, East Java. These activities have been reinforced with a number of PEG Small Grants that have addressed the issues of **credit access for SMEs**, the role of state-owned enterprises in financing SMEs, and **the regulation of microlenders and Islamic banks**.

The role of **monetary policy** in the financial crisis and during the recovery is poorly understood by the public and among political and business communities. A key policy issue currently facing Bank Indonesia is how to develop the credibility of monetary policy under the new Central Bank law of 1999. PEG advisors worked to improve the analytical capacity of the BI research department in macroeconomic modeling, inflation analysis and forecasting,

and exchange rate analysis. PEG advisors also worked with BI counterparts to urge enforcement of the **money laundering law**, identify and **freeze assets of known terrorists**, to create a **deposit insurance system** so the government can move away from the blanket guarantee and to strengthen the banking system in order to boost investment and economic growth.

Finally, PEG-administered grants have resulted in **strong partnerships between U.S. and Indonesian institutions and organizations**. Important relationships have been established with the Indonesian Competition Commission, the Jakarta Stock Exchange, legislative committees that oversee national economic policy, and selected local government administrations. **As a result of the USAID/PEG grants programs, Indonesian national and regional universities, think tanks, NGOs and research groups have an improved capacity to advise government** on decentralization issues, barriers to trade and investment opportunities, promoting healthy competition, liberalizing Indonesia's trade regime and financial and corporate restructuring. PEG also expanded the successful **Small Grants** activity and refocused it to support the Mission's West Java Initiative and to **help local NGOs address local economic development issues** that have arisen as a result of the implementation of regional autonomy and local regulation of businesses.

**1. Contract Final Objective:** The Contract was designed to provide both technical and grant assistance to Indonesia under an activity called the Partnership for Economic Growth (PEG). The goal of the technical assistance (PEG-TA) is to help Indonesia resume and sustain its economic growth by strengthening economic policies and practices associated with increased openness to international trade and investment and strengthened domestic economic competition. PEG-TA was to place and support long- and short-term technical advisors in a series of institutions that are critical to formulating and executing policies needed to improve the international trade regime and domestic economic competition. Other advisors were to provide information, intellectual capital, and analytical support to key policy-making officials in support of the economic growth strategic objective and/or crisis-related topics. The focus was to be on analysis and advice for policy review and formulation. Major institutional development work was not planned. However, strengthening of staff through transfer of intellectual capital and technical skills on key policy issues was expected. Therefore, the use of seminars and short-term training both in Indonesia and in the United States is an element of PEG-TA.

The overall goal of the grants program (PEG-G) is to sustain Indonesia's economic growth by strengthening economic policies and practices associated with increased openness to international trade and investment and strengthened domestic economic competition. It was designed to establish long-lasting relationships between America's premier public and private institutions with counterpart groups in Indonesia to assist in formulating and implementing these economic policies and practices. The PEG grants manager prepares a separate annual report for the PEG-G component, and only brief discussions of some of its activities are included in this report, except that the LOE and estimated costs associated with it are included in the following paragraph.

The PEG Contract is a cost-plus-fixed-fee (CPFF) term contract. It was signed on October 7, 1998. It called for an LOE of 472 person months (pm) during the first 2 years and an optional 3<sup>rd</sup> year, which was exercised by letter on April 26, 2000, at a total cost of \$17,628,802, which included plug figures of \$5,000,000 for grants and \$880,000 for training. Contract Modification No. 3 signed in January 2001 extended the estimated completion date



from October 7, 2001, to October 7, 2002, although most of the TA was funded only through June 2001 (while the grants component was to continue through September 2002). In July 2001 Modification No. 5 authorized a 4<sup>th</sup> year extension, funding most of the TA through June 2002. It increased the Contract LOE to 621 pm and authorized total funding up to \$22,428,290. In July 2002 Modification No. 8 authorized a 5<sup>th</sup> year extension, funding TA, training and grants through June 30, 2003. It increased the Contract LOE to 753 pm and authorized total funding up to \$26,182,764. As of December 31, 2002, cumulative expenditures to date were \$22,792,039 and the remaining unexpended balance was \$3,390,725, while 653.8 pm had been provided and 99.3 pm of authorized LOE remained unused.

**2. Expected Results:** The PEG-TA is expected to support the achievement of USAID/Indonesia's strategic objective framework, in particular its strategy for economic growth and its special objective pertaining to the current economic crisis. This includes the intermediate results related to international trade and domestic economic competition and the policy reform process initiated by the IMF to deal with the current economic crisis.

Under the USAID Mission's Strategic Objective 1 (SO-1), "Foundations set for rapid, sustainable and equitable economic growth," the following intermediate results are targeted:

- 1) Sound economic policy and institutions;
- 2) A conducive legal and regulatory framework;
- 3) Open access to economic opportunity; and
- 4) Knowledgeable public participation in economic decision-making.

Under the Mission's Special Objective 14 (SO-14), "Recovery of the Economic & Financial System", the PEG Contract targets the following intermediate results:

- 5) Financial sector restructured and governance improved; and
- 6) Public sector policy and governance improved.

**3.a. Current Core Activities:** The PEG Contract specifies the provision of a number of long-term economic advisors and provides brief scopes of work (SOWs) for their activities. Each advisor then works out an annual work plan, pursuant to this SOW, with his chief counterpart, which is also informally approved by the CTO. The contract SOWs and the specific work plan activities are listed by advisor below. Two long-term advisors left (Timothy Buehrer and Chris Manning) the project during this reporting period. While Mod 8 included a 12-month SOW for Buehrer's replacement and a 6-month SOW for Manning to continue as a short-termers, neither of these positions was fully funded (nor were 12 person months of LOE listed in the RFP) in the final contract budget for the 5<sup>th</sup> year, and these two SOWs are therefore not being fully implemented.

#### **Consolidated PEG Scope of Work (SOW) and Work Plan for 2002:**

The long-term advisor SOWs reported in the PEG TA Annual Report for 2001 carried through to the first half of 2002, but will not be repeated here (except for the SOW for Timothy Buehrer, who left the project on July 25, 2002). Revised work plans were drafted, reviewed and approved by key counterparts and the PEG CTO in early 2002. Updated SOWs for 11 full time and one part time advisor were included in Mod 8 of the PEG Contract for the period between July 1, 2002 and June 30, 2003. These new SOWs and key elements of both the old and the revised work plans are reported below, including those for the two positions not fully funded and therefore not fully implemented as noted above.

In mid-October 2002 five long-term PEG advisors and the chief of party (COP) were ordered to evacuate following the bombing in Bali. In late November 2002 USAID/ECG requested revised work plans for all evacuated contractors, explaining what parts of their original work plans could still be accomplished and what parts would have to be postponed or canceled due to their absence from post. These revised work plans are included below after the original work plans of each evacuated advisor (Marks, Magiera, Ray, Timberg and Povolny).

The revised Mod 8 SOW for PEG starts with the following preamble: “Working as team in coordination with USAID staff and other USAID funded activities, the long term advisers will strive to further progress on setting the foundations for rapid, sustainable and equitable economic growth for Indonesia, with special attention to achieving sound economic policy and institutions. In particular, the advisers will concentrate on helping Indonesia to foster an open and competitive economy, a sustainable fiscal situation, and sound financial environment.”

**Macro/Policy Advisor at Coordinating Ministry/Finance/Bappenas**  
**Advisor: William Wallace**

The main functions of the combined macroeconomic advisor position will be:

- Macroeconomic and analysis support to:
  - The Coordinating Minister for the Economy and
  - The Minister of Finance
- Organization of trade support as requested by the Minister of Finance
- Agenda setting at Bappenas (integrated with staff work plans)
  - Assistance for Annual Action Plan Repeta 2003 (II quarter 2002)
  - Assistance for the next year’s White Paper (IV quarter 2002)
  - The annual action plan - Repeta 2004 (I and II quarter 2003)
  - Assistance for Long -Term Issues
    - Background studies (Q III and IV 2002)
    - Continued (Q I and Q II 2003)

The consultant’s key policy effort will focus on coordinating and raising the awareness in policy circles of the increasing importance of the poverty/ trade/investment/ labor/banking issues being worked on by consultants elsewhere. To the extent possible, this effort will be integrated with institutional development goals that include assisting the Planning Ministry to improve their analysis, agenda setting and coordination role in these areas. In addition, consultant will help improve the understanding, communication, and reporting of the staff and Minister of the Coordinating Ministry for the Economy on macroeconomic policy issues. In addition consultant will help improve the implementation and understanding of trade policies especially as they impact on elements of the Ministry of Finance. Coordination on trade matters is required with other USAID consultants, both within and without the Nathan-Checchi consortium, as well as with other donors.

The consultant’s activities at the planning ministry will support the planning staff with strategy, guidance and support. At the Finance Ministry, the largest part of the advisor’s time is expected to continue the concentration on trade issues. Remaining tasks in the current workload include those identifying and providing policy recommendations and responses regarding the likely magnitude of smuggling, and the role of bonded zones, especially their foregone tax consequences. At the Coordinating Ministry the consultant will assist the Finance/Banking System consultant on more specifically macroeconomic tasks, including

memos, speeches, etc. (In these tasks the Advisor will call on assistance from advisors at Bappenas, the Ministry of Industry and Trade, and Bank Indonesia).

*Deliverables:*

- *A study on budget issues on the overlap between regional and central government budgets in major sectors or an equivalent study, with recommendations on how to improve this problem in time for the budget in FY 2004 (i.e. the Repeta next year).*
- *Assist Bappenas to complete another White Paper at the end of 2002, and continue assistance to the Repeta process (the near-term focus will be on Repeta 2003, with a later change to background and issues for Repeta 2004) to tighten national priorities and action plans to achieve them.*
- *Under the guidance of the COP, consultant will provide leadership to the organization of the PEG team response on trade issues for the Minister of Finance.*

Work Plan for first half of 2002:

Work Plan Activity 1: Policy Direction: Repeta, model Development, mid-term macroeconomic analysis, policy agenda development and projections.

Work Plan Activity 2: Capacity building: Directorate R&D efforts, continued work on monthly and quarterly annual white papers, macro reports to cabinet

Work Plan Activity 3: Crisis support/catch all: Policy memos and presentations on specific crisis topics as requested.

Work Plan for second half of 2002:

**Workplan Activity 1: Policy focus:** Identify and analyze key economic policies affecting the recovery of the Indonesian Economy: 1) Fiscal analysis, sustainability and economic recovery; 2) Trade and tax policy

**Workplan Activity 2: Institutional capacity building:** 1) Improve the analysis capability of the Planning Ministry; 2) Improve the capability of the office of the Coordinating Minister to track the performance of the Indonesian economy and anticipate policy issues; 3) Improve the capability of the Finance Ministry to set priorities, allocate resources, and improve internal and external communication in the areas of trade policy, economic summits, and meetings around budget financing.

**Workplan Activity 3: Crisis response:** Respond to requests from the Office of the Coordinating Minister for Economic Affairs and the Ministry of Finance as required. Memos and other documents that meet specific immediate needs of the Office of the Coordinating Ministry and the Minister of Finance and others.

**Technical Assistance on Macroeconomic Policies in the Coordinating Ministry for Economic Affairs [strategic focus: policies affecting the recovery of the Indonesian economy and the impact on the poor] (from 4<sup>th</sup> year extension SOW)**

**Advisor: Timothy Buehrer (left the project on July 25, 2002)**

Working under the direction of the Deputy Coordinating Minister for Economic Affairs for the Macroeconomy, Finance, and Bank Restructuring, as well as the senior expert staff member of the Coordinating Minister's office, the technical advisor will be called upon to address a wide range of issues relating to macroeconomic stability, poverty reduction, investment and export promotion, and corporate and bank restructuring. Specific tasks will include, initially, the preparation of a monthly macroeconomic report. However, over time, the expectation is that the technology to prepare and carry out this report will be transferred to staff of the Coordinating Ministry. Tasks will also include studies of the appropriate role of monetary policy in supporting the rupiah and lowering inflation, the impact of economic policies on poverty, appropriate policies to promote rapid export growth, opportunities for increasing foreign and domestic investment, and ways to improve the sustainability of the government's debt, among others. The focus of this technical assistance will be to identify and analyze key macro and micro economic policies affecting the recovery of the Indonesian economy and the impact of the recovery on the poor. A principal focus of the work will be the efficiency benefits of economically oriented policies. This work will cover four general substantive areas:

1. Assisting the government in the preparation of the its poverty reduction program. One important facet of this work will be to assist the staff of the Office of the Coordinating Minister and others to judge the impact of government policies on the incidence of poverty. The goal will be to incorporate a better understanding of how economic policies relate to poverty reduction throughout the policymaking process.
2. Helping to analyze the factors that are important in supporting the recovery of the economy. Over the past year export growth has been a significant driving force in this area. Thus part of this work will focus on understanding the sources of export growth, including the role of export processing zones and other measures in promoting exports. Another activity will involve improving the Coordinating Minister's Office understanding of the role that investment must play in the recovery and helping the staff to develop policies that will promote both domestic and foreign investment. Assistance with issues relating to corporate and bank restructuring will be important in this latter activity.
3. Analyzing fiscal and monetary policy issues and proposing pro-growth policies to support fiscal sustainability. This aspect of the technical assistance will include assisting in the review of revenue and expenditure policies and how they affect the recovery of the economy, developing approaches to balancing the need for fiscal sustainability with the burden that revenue raising measures place on the economy, making recommendations regarding monetary policy for use by the Minister in discussions with the central bank, and assisting in evaluating the sustainability of Indonesia's debt and devising ways in which the debt service burden can be managed so as to reduce debt service while financing future deficits successfully principally from domestic sources.
4. Improve the capability of the Office of the Coordinating Minister to monitor the performance of the Indonesian economy and anticipate policy issues. The technical advisor will work closely with various staff within the office of the Deputy Coordinating Minister for the Macroeconomy, Finance, and Bank Restructuring to improve their capability to analyze trends in the Indonesian economy on a real-time basis, particularly as they relate to monetary policy, international trade, and inflation.

These activities will require increasing their capacity to track key macroeconomic variables quickly and to understand the implications of changes in trends in these variables. Beyond simply addressing past trends, the core objective of this work will be to improve the capability of the staff in thinking through the implications of reported data for the future of the economy. At the same time we will work with the staff to anticipate issues that may arise as the economy develops over the short and medium term.

Work Plan for first half of 2002:

Workplan Activity 1: Identify and analyze key macroeconomic policies affecting the recovery of the Indonesian economy and the impact of the recovery on the poor.

Workplan Activity 2: Improve the capability of the Office of the Coordinating Minister to track the performance of the Indonesian economy and anticipate policy issues

Workplan Activity 3: Respond to requests from the Office of the Coordinating Minister for Economic Affairs as required.

### **Finance/Banking Advisor at the Coordinating Ministry for the Economy/Ministry of Finance**

**Advisor: Peter McCawley (short-term)**

The Nathan-Checchi consultant at the Coordinating Ministry for the Economy has as his direct counterpart the Deputy for Macroeconomics, Finance and Bank Restructuring. Requests for assistance are also received from the Deputy for International Economic Cooperation. In addition over the last year the current Nathan-Checchi consultant has also worked closely with an expert staff for the Minister of Finance on assorted economic issues including money-laundering, debt-for-nature swaps, Paris Club, etc. The consultant at the Coordinating Ministry for the Economy will focus on three areas:

- Finance and Bank Restructuring. This will involve reviewing the progress in this area reviewing (Two or more of the following) :
  - Further recapitalization of banks and adjustments to the recap bonds
  - The regulatory environment - including the new multi-agency supervisory agency. If this activity is chosen, there should be careful coordination with the ongoing work
  - The evolution of financial markets (including the exit from the blanket guarantee)
  - Micro level issues (especially state banks)
- Donor support
  - Consultant will assist the GO1 to understand and prepare for meetings with the donor community. The goal is to achieve a better GO1 outcome and greater GO1 ownership of donor community conclusions and recommendations.
- Private sector capital flows
  - Consultant will assess and evaluate simple, limited effort strategies to help Indonesians devise ways to improve macroeconomic stability by improving private sector capital flows and a strengthening rupiah or an equivalent

analytic effort. To accomplish this, the GOI will need to devise improved strategies that encourage these capital flows as public sector flows dwindle.

The policy agenda includes improved understanding and policy in the banking and broader financial sector. This work needs careful coordination with other USAID and World Bank funded activities. The institution building is related to this, but more directly focused around an initial assessment of the possibility of improving the Indonesian government understanding of private sector capital flows and the policies and information required to maintain stability in such flow and to increase them.

*Deliverables:*

- *An initial significant study (or more) of the banking system or an equivalent activity as judged by the CTO.*
- *An assessment of how to organize better information between the Indonesian government and the foreign private sector or an equivalent activity as judged by the CTO. Consultant will prepare a report, make recommendations, and follow up.*
- *An coherent assessment of a Paris Club exit strategy that addresses Indonesia's perceived needs in the context of the international financial community's views or an equivalent activity as judged by the CTO.*
- *Other policy issues and support as they arise through requests from the GOI and as evaluated by the advisor.*

**Macroeconomic Advisor at Bappenas**  
**Advisor: Kelly Bird**

The Macroeconomic consultant for PEG at Bappenas will provide support for Bappenas efforts to improve macroeconomic analysis, projections and reporting especially around the Repeta/Budget process. The Planning Ministry and the Deputy for Economic Affairs is a key location in the Indonesian government where macroeconomic projections and analysis are carried out. In fact the Planning Ministry is responsible for providing input and direction to the Macro framework in May that forms the umbrella for the budget later in the year. With the focus on fiscal sustainability and its interplay with monetary policy the consultant will be responsible for continuing improvements in understanding and projections in these areas.

In addition the Director for Monetary and Fiscal Affairs is to be held responsible for broader financial market development under the Bappenas reorganization including issues around banking, capital markets and the investment framework. Thus the advisor, working with the Nathan-Checchi advisor to the Coordinating Ministry for the Economy and other USAID advisors as appropriate, will review issues in the banking sector, capital markets and investment as requested by the Minister, and as needed to improve Indonesian understanding of the recovery path for the economy.

A number of real sector issues have become increasingly important for effective macro-economic management:

- The macroeconomic advisor will continue to carry out analysis, draft suggestions for improvements, and work closely with counterparts, the expatriate investor community, and other donors to improve the Investment Law and clarify and make its implication benign as this law moves forward.

- He will assist the labor advisor to complete a coherent detailed Labor White-Paper, addressing economic and labor relations issues
- He will take the lead on preparing a coherent report addressing analytic issues, recommendations, and potential outcomes regarding that links the previous minimum wage work to poverty outcomes,
- Integrate the work on labor policy with the macro-economic framework, for example, the link between minimum wage policy, inflation and monetary policy, and
- Continue to assist staff with their macro monthly reporting/surveys. The policy focus of this work will be the support for the investment law and the integration of minimum wage and other policies with macro-economic policy. The institutional development will be focused around developing Bappenas capability in macroeconomic modeling, especially monetary and budgetary.

*Deliverables:*

- *Work with Bappenas (memos, training, estimation, model building) to improve monetary, macro and budgetary projections for Repeta 2004, including improved staff capability, (this has an externality for the Ministry of Finance and Bank Indonesia as these three institutions share their forecasts)*
- *Memos and briefings on developments in the investment law,*
- *Assistance to the white paper on labor issues,*
- *A study on the, relation of minimum wage increases and poverty or an equivalent study as judged by the CTO.*

Work Plan for first half of 2002:

Work Plan Activity 1: Policy Direction: Model Development, mid-term macroeconomic analysis, policy agenda development and projections. Memos as input into the drafting of the investment law. Initiate research with SMERU on the effects of minimum wages on modern and informal sector employment (with the labor policy expert).

Work Plan Activity 2: Capacity building: Assist in directing policy research efforts (macro with Bill Wallace; employment with Chris Manning), continued work on monthly and annual white papers, monetary reports to cabinet; assist staff in macro forecasting as part of the budgetary and Repeta processes.

Work Plan Activity 3: Crisis support/catch all: Policy memos and presentations on specific crisis topics as requested.

Work Plan for second half of 2002:

**Workplan Activity 1: Model Development, mid-term macroeconomic analysis, policy agenda development and projections:** 1) Periodic Policy Statements (White Papers); 2) Inter-departmental labor policy dialogue; 3) Macro Projections; 4) The proposed Batam free trade law; 5) Support for the Crisis Center

**Workplan Activity 2: Capacity Building Activity:** 1) Monetary sector projections and analysis; 2) Support for Directorate research programs

### **Workplan Activity 3: Crisis support/catch all**

#### **Real Sector Advisor at Bappenas**

**Advisor: Stephen V. Marks**

With the reorganization at Bappenas the bureau for industry has been moved under the renamed Deputy for the Economy. This provides an opportunity to advance a broader agenda on the real sector, building on the labor and investment work already under way and pushing this agenda to the fore as macro stability and budget sustainability concerns fade somewhat. Thus a full time USAID advisor is appropriate in the increasingly important area of trade and industrial policy. Two main tasks are envisaged for this position in the year ahead:

- The first task is to provide substantial analysis, input, and policy recommendations to a white paper on trade and industry policy issues facing Indonesia. This white paper will be input to the Repeta 2004, and as a background study for the long-term planning effort (in 2002/2003), and the Proopenas (five year plan). Bappenas is planning to start this effort with an early seminar to follow up on the industry policy issues raised in the *East-Asian Miracle Revisited*. However, it is also a major element of the requests received by the team from the Ministry of Finance on trade. The goal of the advisor's efforts is to help the GOI provide itself with a clear coherent position on trade and industrial policy that would help clarify, possibly reduce, or assist the government in refusing continuing demands for protection across many sectors.
- The second area of assistance from the Real Sector advisor is to assist the Macroeconomic advisor and Bappenas staff on upgrading macroeconomic projections models. This effort is to involve analytical work on at least three key structural issues affecting the model, providing diagnoses of problems, and recommendations for possible solutions.

This advisor is to have a policy focus on synthesizing work within the government and elsewhere on trade and industrial policy issues for input to long, medium and short-run government policy making and decision making agendas. Institution building will occur as part of the work with the staff on these issues but more directly through assistance to the macroeconomic modeling work.

#### *Deliverables:*

- *The highest priority for consultant work is support for improved trade/industrial analysis including memos and up to a Bappenas white paper on trade/industry policy for use on upcoming Indonesian government planning documents; or an equivalent activity as judged by the CTO,*
- *Revisions and possible extensions are to be made for three major changes to the existing macroeconomic model.*

Work Plan for second half of 2002:

#### **Work Plan Activity 1: Policy Agenda Development**



**Work Plan Activity 2: Capacity Building**  
**Work Plan Activity 3: Crisis Support/Catch All**

Evacuation Work Plan Update, December 2002:

Work Underway on Work Plan Activity 1: Policy Agenda Development

The work that I now have underway can keep me busy for quite some time. There have also been calls for immediate-run assistance from my colleagues in Jakarta, which I list below under work already completed.

**Fiscal Analysis**

In order to better provide for fiscal stability and independence in years to come, our counterparts in Bappenas are concerned with revenue enhancement, and especially with simple arguments and analyses that can be used to push the Ministry of Finance toward improving tax policies and administration.

**Value Added Tax:** Analysis of sectoral exemptions and optional participation by retailers

The value added tax system of Indonesia has been improved in several respects since its inception in 1985, and in most aspects of its design conforms with international best practice. The notable exceptions are in the granting of widespread exemptions on sectoral and other bases, as well as incomplete application of the VAT system at the level of retailers.

Deliverable: A short paper that analyzes the revenue and other implications of these aspects of the VAT system, using input-output and other data.

**Excise Tax on Cigarettes:** Revenue, efficiency, employment, and equity implications

The excise tax on cigarettes is generally regarded as an excellent revenue generator that creates few economic distortions (and indeed may contribute to the rectification of certain market failures). Several important empirical questions arise: how responsive is cigarette consumption to price changes (such as those induced by excise tax rate changes), how large are the negative externalities associated with cigarette consumption, and how large are the (direct) employment effects associated with tax rate changes? On the first and third questions, my own expertise can be brought to bear on Indonesian data. On the second, I will have to survey the literature from other countries. The ultimate goal will be to shed light on the question of just how high the tax rates should be.

Deliverable: A detailed policy memo that examines these issues.

**Excise Tax on Petroleum Products:** Revenue, efficiency, employment, and equity implications

Application of a low to moderate excise tax rate on petroleum products has been claimed to be a relatively efficient way to raise significant additional revenues for the government. The goal here would be to conduct an analysis much in parallel with that for the cigarette sector.

Deliverable: A detailed policy memo that examines these issues.

## Industrial Policy: Industrial development policy in post-crisis Indonesia

The National Development Planning Minister asked recently whether Indonesia really has an industrial development strategy. The United Nations Industrial Development Report for 2002 argues that vigorous industrial development necessitates an active role for government based on a clear vision of national development priorities and strategy. However, in the aftermath of the economic crisis, the Government of Indonesia faces diminished resources, while the collapse of foreign direct investment points to the need for an improved business environment in general, and to improvements in governance and the legal system in particular. Given these new realities, how can Indonesia best promote industrial development in a way that is consistent with these other objectives?

Deliverable: A policy analysis paper

### Work Already Completed

- Critique of cocoa export tax policy proposals made by MOIT and VAT administration issues in the cocoa sector, based on analysis and interview with officials of the Indonesian Cocoa Association.
- Initial draft of talking points for Minister Kwik Kian Gie on development strategy, with particular emphasis on technological development, for meeting with high-level delegation from North Korea.
- Survey of travel agents and travel and liability insurance companies about impact of State Department Travel Warning related to Bali bombing.

### Location Issues

Analysis of equity implications of these tax policies may have to await my return to Jakarta, where I will have much easier access to the SUSENAS database on household expenditure, for example. If our stay here is prolonged, I may be able to delegate that portion of the analysis to someone in Jakarta.

Being in Washington has offered certain advantages in conducting these projects, such as access to excellent library facilities and to the staff of the International Monetary Fund. Within the next few weeks, these advantages will diminish, at least for the fiscal analyses, and the disadvantages of being remote from data sources and colleagues in Jakarta will weigh increasingly heavily. In the event of an extended evacuation, I could focus more attention on the industrial policy project, and there is certain library work associated with that project that I would like to do in any event, but I think this is of lower priority in terms of the concerns of my colleagues and our Bappenas counterparts at this point.

### Labor Advisor at Bappenas

**Advisor: Chris Manning (long term to June 30, 2002, short term after that)**

This position is programmed for about one half a year (after June 30, 2002). There are two areas of broad policy support: national labor policy and regional government public

sector employment and wage policy. On **national labor policy**, the advisor will be asked to encourage concrete government policies on minimum wages, improved regulation (possibly laws) regarding the labor market and industrial relations, building on in-depth research and intensive technical support and consultations conducted during 2001-2002.

There are two priorities:

- Consultant will provide a framework for substantive central government input, which takes into account the threat to employment from the anticipated minimum wage increases. The policy process on this issue, initiated at the regional level, begins in the lead up to regional decisions about these key matters that will occur before 2003.
- Consultant will provide a focus for policy reform in the area of labor more generally, taking into account important developments in labor regulation, legislation and industrial relations, over the past three years. This work is to be designed to help provide direction, a set of priorities and an agenda for action in government reform and policy over the next three to five years. These activities will be organized around a forthcoming Bappenas white paper on labor issues (consultant will make major inputs) that will be discussed at a major workshop to be held in at about the mid-point of the additional work being carried out by the consultant. Consideration will be given to improved system of tripartite regulation of the Indonesian labor market by workers, employers, and government.

Consultant will also address the analysis of regional issues in the public sector labor market. Public sector employment dominates the urban economies in many Outer Island provinces. One pressing need is a more clearly defined set of regional government policies on the recruitment, deployment and wage policy in the civil service, which accounts for a overwhelming share of total regional budget expenditure. One approach is to explore the issues and implications of allowing the local governments to set their own salaries and working conditions. Decentralization has contributed to over-manning, and flexibility on compensation would allow the regions (with lower than average costs of living) more possibilities to smooth adjustments and free up funds for pressing social and economic expenditure needs. It would also align incentives and potentially raise awareness on the potentially damaging impact of minimum wages on private sector employment. It will require quantitative analysis of civil service wages (building on previous World Bank work here), and qualitative work on the issues and strategy needed to change policy. Consultant will carry out at least three analyses and prepare inputs and at least two relevant reports, as appropriate.

Another, related, set of issues have to do with discrimination in employment against outsiders from other regions and employment of less qualified locals in key positions of government. Consultant will investigate to gain understanding of the importance of these issues for efficiency and equity at provincial and district level, and its potential impact on social cohesion.

Consultant will actively seek to coordinate his activities as appropriate with other US government-funded activities directed to serving the Indonesian labor market.

*Deliverables :*

- *Complete a major policy paper that will be a key input into the Bappenas White Paper on labor policy.*

- *Hold a workshop on labor policy inviting major stakeholders, policy makers, the press and politicians, and disseminate the discussions of workshop widely.*
- *Carry out and report upon as relevant an exploratory initial examination of issues on regional recruitment and deployment of labor, and civil service wages or two similar activities as judged by the CTO.*

Work Plan for first half of 2002:

Work Plan Activity 1: Overall leadership of technical assistance on labor policy at the Bappenas culminating in a White Paper on this subject. Prepare memos for Bappenas on various aspects of labor policy, especially minimum wages, for a White Paper. Prepare briefs on employment and poverty alleviation for the Economics Coordinating Minister and Bappenas (Propeta).

Work Plan Activity 2: A review of the current employment relations and dispute resolution laws. Initiation of research on industrial relations laws and practices in the private sector together with SMERU.

Work Plan Activity 3: Assistance to the PEG subcontractor SMERU for materials to help district governments on labor policy. Development of a simple manual on minimum wage setting, designed in comic-format, for provincial and district governments.

Work Plan Activity 4: Improvements to the labor monitoring database and monthly reports at Bappenas. Technical support to the staff of the Directorate of Manpower on several indicators of quarterly and annual change.

Work Plan Activity 5: Capacity building activities with PEG grantee IRIS. Planning of workshops on regional development and fiscal policy for February- July 2002. Technical advice to IRIS on regional university programs and aspects of labor policy to be debated at the Parliament.

**International Trade Specialist, Ministry of Industry and Trade**  
**Advisor: Steve Magiera**

***International Economic Integration and International Trade Negotiations***

**Trade Policy Reform.** The Government of Indonesia has made great strides at integrating the Indonesian economy into the world economy. Since May 1995, tariffs have been reduced by over 50 percent and many non-tariff import barriers have been eliminated. Nevertheless, there continue to be requests for increased protection. In addition, the Government often needs to analyze its trade policy structure for international negotiations and for specific policy issues. The focus of this work is to be in the Ministry of Industry and Trade and in Team Tariff in the Ministry of Finance. Coordination on these is required with the Nathan-Checchi consortium and with other donors in support of GO1 activities.

*Deliverables: Update the project's trade policy database and provide policy memoranda on trade policy issues as requested.*

**Support for Indonesia's Participation in Multilateral Trade Agreements.** The implementation and enforcement of international trade agreements and the negotiation of new agreements will continue to be major issues faced by the Government in the coming years. As part of the built-in agenda from the Uruguay Round, negotiations on services and agriculture are now on-going in the WTO. At the Doha trade ministerial in 2001, the worlds' trade ministers agreed to broaden the negotiations to include other issues as well. Responsible institutions would be in the Ministry of Industry and Trade, plus other institutions where relevant (e.g., the Ministry of Agriculture in the case of agricultural negotiations, and the Ministry of Finance in the case of service negotiations, etc.)

*Deliverables: Provide technical assistance and training on multilateral trade agreements, including the WTO built-in agenda on agriculture and services.*

**APEC Action Plans.** APEC continues to play a major role in facilitating transparency in international trade policy and in setting the agenda for trade negotiations in other forums. APEC economies must submit annual action plans on their trade policy measures. In addition, Indonesia is an active participant in other APEC activities, including the APEC capacity building-program. The lead agency supported is the Ministry of Industry and Trade.

*Deliverables: Provide input on Indonesia's APEC action plan. Support the Government's participation in other APEC activities as requested.*

**Anti-Dumping and Safeguards.** Indonesia has introduced its own regulations on the use of antidumping actions against other countries. Regulations on the use of safeguards are also now being developed. These regulations are in conformance with WTO rules, but do not always reflect international best practices. For example, the regulations tend to favor the parochial interests of industries seeking protection and do not take into account the wider interests of society. The lead agency supported is the Ministry of Industry and Trade.

*Deliverables: Develop recommendations for administrative procedures reflecting international best practices in the use of anti-dumping and safeguard measures or two similar activities as judged by the CTO.*

## **Foundations for Competitive Markets and Competitive Industries**

**Telecommunications Regulatory Reform.** In response to the rapid advancement in information technologies, Indonesia has passed a new telecommunication Law and is undertaking steps to reform its telecommunications sector. Major goals are the development of new telecommunications infrastructure, the development of competitive markets for enhanced and basic telecom services, and the development of new business opportunities for small and medium size enterprises. The Government is now in the process of developing decrees to implement the Law, including decrees on licensing, the number of telecommunications providers, interconnection; pricing, universal service, and other issues as required by the Law. The lead responsible institution is the Ministry of Communications.

*Deliverables: Provide assistance on international best practices for the implementation of Indonesia's new telecommunications Law, the development of a modern regulatory system for telecommunications, and the establishment of an independent regulatory authority.*

## Trade and Industrial Development

**Export Performance and Related Policies.** The Indonesian export sector has had to make major adjustments as a result of the economic crisis, and there are concerns about Indonesia's anemic economic performance and whether it can lead the economic recovery. For informed policy making, Government officials need current information on the export sector and factors influencing exports. The lead counterpart agency is the Ministry of Industry and Trade.

*Deliverables: Provide an in-depth analysis of the factors impacting Indonesia's trade performance.*

### **Respond to short-run staff requests and prepare speech materials, as requested.**

Work Plan for first half of 2002:

Work Plan Activity 1: Trade Policy Reform: Update the project's trade policy database and provide policy memorandum on trade policy issues as requested.

Work Plan Activity 2: Support for Indonesia's Participation in Multilateral Trade Negotiations: Provide technical assistance and training on multilateral trade negotiations, including the WTO's build-in agenda on the agricultural and services negotiations.

Work Plan Activity 3: Telecommunications Regulatory Reform. Develop a modern telecommunication regulatory system for Indonesia and assist in the implementation of Indonesia's Telecommunications Law.

Workplan Activity 4: Enhancing Service Industry Competitiveness: Conduct sector studies on regulatory reforms and competitiveness issues in the services sector.

Work Plan Activity 5: Respond to short-run staff requests and prepare speech materials as requested:

Workplan Activity 6: Ad Hoc Requests/Meetings

Work Plan for second half of 2002: *(With ordered departure updates in italics)*

**Workplan Activity 1: Trade Policy Reform:** Update the project's trade policy database and provide policy memorandum on trade policy issues as requested.

*This activity has been curtailed by the evacuation. For example, I am unable to provide input on major tariff issues that will be discussed by Team Tariff at its meeting in mid-December. A workshop on "Mainstreaming Trade Policy into Indonesia's Development Agenda" has been delayed twice because of the evacuation. The workshop is now scheduled for the second week of January, but may have to be delayed again.*

**Workplan Activity 2: Support for Indonesia's Participation in Multilateral Trade Agreements:** Provide technical assistance and training on multilateral trade agreements, including the WTO built-in agenda on agriculture and services.

*This activity is on-going and has been unaffected by the evacuation. Draft schedules of restrictions on foreign service providers of communications and environmental services have just been completed. The schedule on environmental services has been finalized and was sent to Indonesia's interagency team on services at the end of November. I am now working on finalizing the schedule for communications.*

*If the evacuation continues, I will prepare a final report on Indonesia's investment restrictions affecting foreign providers of services. This report could require 3-4 man-weeks, and can be completed while on evacuation status, except that it is more difficult to communicate with my consultants in Indonesia.*

*In addition to the above, I have been in communication with various institutions in Washington (World Bank, USDA, International Food Policy Research Institute) concerning the possibility of a WTO Symposium in April 2003.*

**Workplan Activity 3: APEC Action Plans:** Provide input on Indonesia's APEC action plan. Support the Government's participation in other APEC activities as requested.

*No major work was planned for this activity at the time of the evacuation. While on evacuation status, I am doing some preparatory work for the Ministry's APEC training course on sanitary/phytosanitary regulations, which will be held in May or June of 2003.*

**Workplan Activity 4: Anti-Dumping and Safeguards:** Develop recommendations for administrative procedures reflecting international best practices in the use of anti-dumping and safeguard measures.

*Most of the work for this activity has already been completed. However, the Government has recently requested training on trade policy processes. Because of the budgetary implications, it is uncertain whether we can respond to this request.*

**Workplan Activity 5: Telecommunications Regulatory Reform.** Provide assistance on international best practices for the implementation of Indonesia's new telecommunications Law, the development of a modern regulatory system for telecommunications, and the establishment of an independent regulatory authority.

*This has been a major activity during the evacuation:*

- 1) Provided a review and recommendations on compensation estimates for Telkom and Indosat for a December 4<sup>th</sup> inter-ministerial meeting (Ministers of Communications, Finance, State-Owned Enterprises, and Coordination). We are now waiting word back on the results of that meeting before making final recommendations.*
- 2) The PEG project was very instrumental in bringing a consensus between the private sector and government on a draft decree on interconnection. A new draft has just been issued to the private sector for comment, but our role has been limited because of the evacuation. A draft is being reviewed in Jakarta by a task force formed by Indonesia's Telecommunication Association.*
- 3) PEG was instrumental in developing a consensus between the private sector and government on the establishment of an independent regulatory body for telecommunications. An academic draft on legal issues surrounding the establishment of an IRB is in process. Because of the evacuation, we have had little*

*role in this draft. If the evacuation continues, however, I will prepare a report on certain IRB issues related to the organization of the body, including ways to achieve independence, transparency, and dispute resolution. This work would begin in January.*

- 4) *A draft report on competitiveness issues in the telecommunications issues was begun prior to the evacuation, but has been put on hold while working on Telkom/Indosat compensation. Depending on other priorities, work on this report can continue while on evacuation status.*

**Workplan Activity 6: Export Performance and Related Policies.** Provide an in-depth analysis of the factors impacting Indonesia's trade performance.

*Because of the difficulty in gathering data and working with our trade data computer programs, am unlikely to conduct any work on this activity while in evacuation status.*

**Workplan Activity 7:** Respond to short-run staff requests and prepare speech materials, as requested.

*This activity has been severely affected by the evacuation. Have responded to one request for information on the U.S Container Security Initiative.*

**Domestic Trade Advisor, Ministry of Industry and Trade**  
**Advisor: David J. Alan Ray**

***Competition Policy and Deregulation-*** Assist with the development of legislation and supporting institutions at the national level that will help ensure fair trade and competition for all parties in an increasingly deregulated economic environment.

The development of a competitive and fair trading environment represents an important foundation for future social and economic development in Indonesia. The Domestic Trade Advisor will provide economic analysis and reports, short-term technical assistance and training to support the development of policies that promote economic growth through deregulation, competition and greater private sector participation.

*Deliverables:* 1. Policy memoranda, papers as requested  
2. Training seminars/workshops

***Decentralization and Domestic Trade*** - Monitoring the impact of regional autonomy upon domestic trade and the business climate at the local level. At the national level, development of appropriate legislation and institutions to ensure free internal trade in the decentralizing era.

By bringing government 'closer to the people' decentralization brings with it the opportunity for more efficient and accountable government. However, decentralization also brings with it the threat of uncoordinated setting of taxes, and the use of discriminatory measures such as non-tariff barriers to favor locals over outsiders. In the current fiscal climate, taxes on trade are particularly worrisome as they work to undermine national economic integrity and



typically drive a wedge between farmgate and wholesales prices thereby depressing agricultural incomes.

Effort is required to monitor how decentralization is impacting upon business and trade. Local legislation needs to be reviewed and rescinded if necessary. National laws and institutions need to be further developed to ensure free, open and competitive internal markets in the decentralizing era.

*Deliverables:*

1. *One or more regional studies on the impact of decentralization upon the business climate.*
2. *Frequent updates on problem local regulations (perda bermasalah)*
3. *Assistance for MOIT in developing a new national law on free internal trade*

**Conducive Local Regulations** - Assistance directed at the local level to socialize policies that promote trade and other economic activities; and to institutionalize more effective regulatory review mechanisms as a means to prevent unnecessary and trade distorting local regulations.

An important means to prevent or minimize barriers in domestic trade is to socialize how both good and bad regulations respectively impact upon the business environment at the local level. An important missing ingredient in the process of developing regulations at the local level is the institutionalization of an effective regulatory review system. Such a process requires the completion of regulatory impact assessments to ensure that costs of regulation do not exceed the benefits and that the problem to be solved actually requires explicit regulation.

*Deliverables: Work with local universities, on such factors as various socialization and training workshops*

**Distribution Systems** - Identification and analysis of issues and problems affecting the distribution sector in general, and/or the distribution system for specific commodities

A well functioning distribution system improves the competitiveness of Indonesian producers by allowing products to reach the market quickly at low delivery cost. An efficient distribution system is also important in that it serves consumers by expanding their choices and by providing better services and products at ever-lower prices. There has been much progress in recent years in improving the Indonesian distribution system. However many problems still remain (such as infrastructure bottlenecks, information asymmetries and locally imposed trade barriers). An important recent focus for the Domestic Trade Directorate General has been to use domestic commodity price data to measure distribution efficiency. MOIT has also requested assistance in monitoring the impact of certain events (such fuel price rises, Lebaran) upon domestic food (and other) prices.

*Deliverables:*

1. *One policy study or equivalent, policy memos and training to assist in the analysis of domestic price data.*
2. *Analysis and short memos on the impact of key events upon food prices*

**Port Sector Reform** - Analysis and policy assistance with regards to improving the performance of Indonesian ports through greater private sector participation and also in

developing appropriate legislation and institutions governing port sector affairs in the decentralizing era *or an equivalent activity as judged by the CTO*.

In an archipelago and essentially agrarian nation such as Indonesia the development of efficient distribution and trade systems (both domestic and external) is very dependent upon the transport infrastructure, in particular the port sector. The Indonesian port sector lacks modernization and remains largely inefficient. This is due to a general lack of competition and private sector participation in the sector. The Ministry of Communication has requested assistance in developing strategies for promoting private sector investment in the sector and in developing a new decentralization consistent national law on ports.

*Deliverables for the port activity (comparable deliverables as judged by the CTO if the study area is changed):*

1. *One policy study on improving private sector participation in the port sector*
2. *One policy study on laws and institutions governing ports in the decentralizing era*
3. *National workshop on port sector development*

**Industrial Competitiveness** - Research and analysis of key issues affecting Indonesia's industrial competitiveness.

The MOIT is currently in the process of defining a new approach to industry policy as a means to enhance Indonesia's long run competitiveness. For this work activity the Domestic Trade Advisor will give particular attention to the efficiency of domestic markets as a key input to the competitiveness process. Attention may also be given to key sectors such as Textiles and Clothing, Footwear, Plastics and Petrochemicals, amongst others. Important issues that may be considered include business development services, taxation policy (in particular value added taxes) human resource development, domestic competition, access to information and technology, innovation, and the supply side benefits of clusters.

*Deliverables:*

- 1) *Provide input, in the form of papers and memos, to the development of a new industry policy vision at the MOIT*
- 2) *At least two sectoral studies.*

**Ad hoc requests** - Respond to short run MOIT and USAID/PEG requests and prepare speech materials as requested

This includes speeches for the Minister and senior MOIT officials, attendance at various meetings, responding to training requests as well as a range of other activities not captured by workplan activities 1- 4.

*Deliverables: 1) Memos, papers and speeches as requested*  
*2) Attendance and participation at meetings/committees as requested*

Work Plan for first half of 2002:

Work Plan Activity 1: Competition, Deregulation and Consumer Protection:  
Assist with the development of legislation and supporting institutions at the national level

that will help ensure fair trade and competition for all parties in an increasingly deregulated economic environment

Work Plan Activity 2: Distribution Systems: Identification and analysis of issues and problems affecting the distribution sector in general, and/or the distribution system for specific commodities

Work Plan Activity 3: Decentralization and Domestic Trade: Analysis and policy assistance in regards to the impact of regional autonomy upon domestic trade and the business climate at the local level.

Work Plan Activity 4: Transport Policy and Domestic Trade: Analysis and policy assistance with regards to the impact of transport policy and systems upon regional development and domestic trade.

Work Plan Activity 5: Industrial Competitiveness: Research and analysis of key issues affecting Indonesia's industrial competitiveness.

Work Plan for second half of 2002: *(With ordered departure updates in italics)*

**Work Plan Activity 1: Competition and Deregulation** - Assist with the development of legislation and supporting institutions at the national level that will help ensure fair trade and competition for all parties in an increasingly deregulated economic environment.

*The focus on this activity during the evacuation period is to put forward policy recommendations to the Chairman of the MOIT R&D Agency on what action can be taken at the national level to develop better institutional and supervisory arrangements to prevent the proliferation of competition impeding regulations at the local level.*

*Deliverables:*

- 1. At the request of the R&D Agency, a major policy paper will be prepared that clearly identifies the problems underlying the regulation-making process at the local level, at what can be done by MOIT and other central government agencies in developing a better national supervisory framework. This paper will draw up a recent PEG funded study of local regulations in West Java by the Bandung Institute of Government studies (as well as other recent PEG studies).*

**Work Plan Activity 2: Decentralization and Domestic Trade** – Monitoring the impact of regional autonomy upon domestic trade and the business climate at the local level. At the national level, development of appropriate legislation and institutions to ensure free internal trade in the decentralizing era.

*Deliverables:*

- 1. Assistance for MOIT in developing a new national law on free internal trade Not much more can be accomplished on this topic while in evacuation status.*

**Work Plan Activity 3: Conducive Local Regulations** – Assistance directed at the local level to socialize policies that promote trade and other economic activities; and to institutionalize more effective regulatory review mechanisms as a means to prevent unnecessary and trade distorting local regulations.

*The focus during the evacuation period will be to continue the joint PEG-MOIT program in socializing better regulatory review techniques in the regions. A survey of 1000 firms of the impact of decentralization upon the business climate will be completed this quarter.*

*Deliverables:*

- 1. Two socialization and training workshops. Tentatively booked for Manado and Bali in late November and early December*
- 2. Completion (and distribution during the above-mentioned regional workshops) of a joint PEG-MOIT Regulatory Review Manual written specifically for local government*
- 3. Initial processing of results from the 1000 firm survey mentioned above will be carried out this quarter*

**Work Plan Activity 4: Distribution Systems** - Identification and analysis of issues and problems affecting the distribution sector in general, and/or the distribution system for specific commodities.

*The focus here will be on recent moves to re-regulate the modern retail sector (following similar moves in other Southeast Asian countries to protect small and traditional retailers).*

*Deliverables:*

- 1. If time permits, a policy brief (using the regulatory review methodology described above) that weighs up the costs and benefits of restricting competition. This will be used by MOIT in internal discussions regarding the proposed new regulations.*

**Work Plan Activity 5: Port Sector Reform** - Analysis and policy assistance with regards to improving the performance of Indonesian ports through greater private sector participation and also in developing appropriate legislation and institutions governing port sector affairs in the decentralizing era.

*The focus will be to pull together recent PEG work on port sector reform to generate a policy paper that outlines the many problems confronting port users and what can be done at the policy level to promote modernization.*

*Deliverable:*

- 1. A Policy paper as described above*

**Work Plan Activity 6: Industrial Competitiveness** - Research and analysis of key issues affecting Indonesia's industrial competitiveness.

*Deliverables:*

- 1. Using data recently made available undertake analysis of Indonesia's relative competitive position in global exports, giving particular attention to trends in the*

*medium-short term. Consideration will also be given to how recent events (the Bali bombing) will impact upon Indonesia competitiveness as well as possible measures to respond to these new pressures.*

2. *Complete a summary paper of the key demand and supply side factors undermining textiles and apparel. This will be translated into Indonesian and distributed/published widely.*

**Work Plan Activity 7: Ad hoc requests** - Respond to short run MOIT and USAID/PEG requests and prepare speech materials as requested.

**Resident Advisor on Monetary and Exchange Rate Policy and Research, Bank Indonesia, July 2002-June 2003**

**Advisor: William “Ted” James**

*(Note: SOW items in italics were added after discussions with BI counterparts.)*

**Research and Analysis and Education on Inflation and Monetary Policy.** The resident advisor will work closely with BI staff in the Directorate for Research on Economics and Monetary Policy to develop a research, analysis, and education program aimed at enhanced understanding of the process of inflation and methods for helping Bank Indonesia to bring the inflation rate, as measured by the Consumer Price Index (CPI) down to medium term target levels of 6-7%. This research analysis and education will involve monitoring of monetary aggregates (currency, base money, demand deposits, time deposits, M1, M2, etc.) and movement of interest rates on loans and various savings instruments. Research analysis, and education will seek to illuminate the processes through monetary policy and exchange rate policy are transmitted and the effects these processes have on the level and rate of change of prices. *Regional trends in international trade will also be monitored as a key part of this activity.*

**Research, Analysis and Education on Productivity in the Real Economy, Capital Formation and Inflation.** The resident advisor will work closely with BI counterparts to establish a working group on productivity and will seek to enhance measurement of productivity and productivity growth in the Indonesian economy. Bank Indonesia presently monitors and estimates the capital stock in the Indonesian economy but has not looked carefully at levels and trends in productivity of capital and labor in the real economy. Enhanced awareness of the relationship between productivity, productivity growth and remuneration is essential for achieving price stability in Indonesia. This activity will seek to adopt research methodologies presently used by other Central Banks in monitoring productivity and productivity change, including the Federal Reserve.

**Coordination of Short-term Technical Assistance and Development of a Regular Research Seminar Program on the Financial System Safety Net.** The resident advisor will work closely with other donors, the academic and business community to bring a variety of high-quality economic research to the attention of counterparts in Bank Indonesia and, collaboratively, to help improve the research environment in Bank Indonesia, *focused on the various components of a comprehensive financial system safety net including, but not limited to the replacement of the blanket guarantee with a limited coverage deposit insurance scheme, least cost methods for resolving failing banks and financial institutions, improvement in bank supervision, the role of an independent central bank in promoting financial stability, and the lender of last resort function of a central bank. The seminar series will provide an*

*opportunity for officials from Bank Indonesia to discuss these key issues with officials from the Ministry of Finance, IBRA and BKP in order to develop a consensus policy position for the GOI and to build support in the public and among law-makers for sound and stable financial system. The resident expert will also assist in counter-terrorism related financial work in areas such as money laundering and coordinate activities in this area with other USAID project staff (ELIPS) and other donors. The objective will be to establish a regular, on-going research seminar program with voluntary attendance and participation by BI researchers.*

**Assist Bank Indonesia Publications Programs.** The Resident Advisor will assist counterparts in Bank Indonesia in improving their English Publications on economic and monetary policy affairs. He will assist in editing work on BI's annual report and related publications as requested.

*Deliverables:*

- *Recurring regular analyses and training provided informally to Bank Indonesia staff.*
- *Three technical reports will be prepared in relationship to Activities One and Two above.*
- *Seminar notes will be collected for dissemination as part of Activity Three above.*

Work Plan for first half of 2002:

Work Plan Activity 1: Export Performance: Provide analysis of Indonesia's export performance; focus on non-oil manufactured products: international demand factors, market access and competition with other producers. Examine the relative performance of Indonesia compared with other Asian economies in worldwide markets.

Work Plan Activity 2: Institutional Support for Market-Friendly Policies: Conduct activities in order to enhance awareness and understanding of international trade law and seek to improve institutions involved in policy formation with constituency for sound economic policies including government, the private sector and academia. Work will focus on the gains from trade, both international and domestic; the role of international trade institutions in resolving disputes and in providing a framework for Indonesia to preserve and enhance market access for its products and services in the international marketplace.

Work Plan Activity 3: The New Regionalism: Implications for Indonesia: Provide analysis of the possible impacts of new Asian preferential trading arrangements on Indonesian economy. This work will be preliminary until the scope and shape of these new arrangements is understood as these new agreements are notified and enter into force.

Work Plan for second half of 2002:

**Workplan Activity 1: Research on Inflation and Monetary Policy:** Develop a research program aimed at enhanced understanding of the process of inflation and methods for bringing the inflation rate, as measured by the Consumer Price Index (CPI) down to medium term target levels.

**Workplan Activity 2: Research on Productivity in the Real Economy, Capital Formation and Inflation:** Establish a working group on productivity and will seek to enhance measurement of productivity and productivity growth in the Indonesian economy.

**Workplan Activity 3: Coordination of Short-term Technical Assistance and Development of a Regular Research Seminar Program:** Improve the research environment in Bank Indonesia. The objective will be to establish a regular, on-going research seminar program with voluntary attendance and participation by BI researchers.

**Workplan Activity 4: Assist Bank Indonesia Publications Programs:** Assist counter parts in Bank Indonesia in improving their English Publications (including electronic media) on economic and monetary policy affairs.

**Additional Activity** - Ministry of Finance and Ministry of Industry and Trade

**Small Scale Adviser, Bank Indonesia and Other Institutions**  
**Advisor: Thomas A. Timberg**

### **Bank Indonesia**

Both Micro and Small and Medium Enterprises (SMME) are critical in Indonesian development. Both in Indonesia, and the world as a whole, a new paradigm has emerged for SME promotion. This paradigm is based on the realization that efficient SMME will do well in competitive markets and that their primary need is access to those markets. In SMME finance the paradigm involves the development of financial markets and institutions not targeted, subsidized credit. The work program of the Adviser is directed to three government clients who determine much of the framework for SMME in Indonesia: Credit Bureau (BKr) and Rural Banking Directorate (DBPR) of Bank Indonesia (BI) and the State Ministry for Cooperatives and Small Enterprise (MennegKop).

- A. In the case of BKr training and research are designed to assist the transition to the new paradigm as follows:
  - 1 . In House Courses on SME Finance Research Methodology, Rural Finance, and SME Policy.
  - 2 . Socialization Seminars with regional banks and publics to promote SMME lending.
  - 3 . Research on the factors influencing Commercial Bank Lending.
- B. In the case of DBPR, ongoing and new activities include:
  - 1 . Research on Best Practices for Bank Perkreditan Rakyat (BPR), rural banks.
  - 2 . Research, advice, and support for dialogue on regulation of non-bank microfinance institutions, the licensing and promotion of new BPR, improved BPR information systems, improved external audit of BPR, and linkage of BPR with more general financial markets (especially through the creation of a rating bureau).
  - 3 . Research on regional patterns in SMME finance which should serve as raw material for regional approaches to SMME finance.
  - 4 . Joint work with USAID funded entities such as Asia Foundation on specific regional microfinance initiatives.
- C. Other work will be with other sections of BI as follows:
  - 1 . Coordination of the Short Term Advisory work on HRD/Training for bank supervision.

- 2 . Assistance to the Directorate for Licensing and Information on the proposed credit bureau and other issues.
  - 3 . Assistance to the Transition Team on the development of BI's regional offices.
  - 4 . Assistance to the Shariah Banking Bureau.
- D. The activities with MennegKop are more tentative because they depend on several decisions by USAID/Jakarta but include as follows:
- 1 . Research on the regulation and promotion of savings and loan cooperatives and the impact on them of regional autonomy.
  - 2 . Research on subcontracting/partnership between SMME and large industry as a means for their promotion.
  - 3 . Other potential work includes that on small debt resolution, revision of SMME legislation, and the impact of government activity on SMME.

*Deliverables:*

*Incumbent will provide a final report addressing the research results, the analysis underlying the research, the recommendations that result and the rationale for those recommendations. The research, analysis, and assistance activities will also be reported to government officials through a national seminar that the incumbent will organize to consider findings and generate support for policy follow through. Policy advice is typically documented in policy memoranda to decision makers, as well frequently by participation and presentations to national or regional seminars for which there is always final documentation. Incumbent is committed to completing three policy memoranda and five presentations to national or regional seminars. Finally, much of the collaborative work is culminated in seminars/workshops/meetings and which participants resolve next steps and again are documented both in published proceedings (though these are occasionally not available to the general public if the authorities restrict their dissemination) and in a written Notulen (or summary report). Incumbent will draft or assist in the drafting of at least five Notulen. Incumbent is to persist to seek enactment or promulgation of three pieces of legislation or (more typically) regulation on the administrative or provincial level) or formal institutional initiatives (documented in the government case by administrative legislation, and in private cases by contracts, memoranda of understanding, or similar documents.)*

**Work Plan for all of 2002: *(with ordered departure updates in italics)***

*During the evacuation a considerable amount of contact and activity is being conducted by e-mail. Considerable discussion has occurred on items like proposed USAID funding of the kickoff seminar for the pilot regulation of savings and loan cooperatives in Jember, a visiting scholar for the Shariah Bureau of Bank Indonesia concerned with regulating Islamic banking, funding for a proposed MennegKop seminar on business development services in Bali, and similar topics. Otherwise, the adviser has been editing several regional profiles of small scale finance, and other project outputs. Since much of this activity is to be funded through Asia Foundation, there has been a considerable communication with them as well. Finally, the adviser has scheduled meetings with World Bank and USAID counterparts and attended various meetings with other evacuees planning further activity.*

**Workplan Activity 1:** To respond to short-term Bank Indonesia (BI) crisis related requests for policy analysis in the areas of small and medium enterprises (SME) and alternative financial institutions (AFI), to include reviewing Indonesia's credit policies toward SMEs and suggesting policy improvements and alternatives that will promote broad-based economic growth in Indonesia.



**EVACUATION REVISION** – *This activity has changed it terms of specific questions considered but not otherwise. Over the last several weeks enquiries have come from the PEG Office in BAPPENAS concerning a proposed Presidential trip to the Microfinance summit in New York. Clearly, with my being in Washington the intensity of such requests from Indonesians is less; though others come from USAID and others in Washington.*

*The Adviser's role in the ongoing discussions on Shariah Finance, Banking Supervision, the new Credit Reference Bureau, and monitoring the new anti-money laundering legislation is obviously limited by his absence; nonetheless some activity has been continued over the internet.*

**Workplan Activity 2:** To conduct surveys of financial institutions and SMEs to verify (and correct where necessary), the available data, to include:

- Undertake surveys of financial institutions and small and medium enterprises, including secular and Islamic cooperatives, commercial banks, BPR (Rural Banks), as well as client SME enterprises and other SMEs.
- Correlating and integrating survey findings with those of actors, e.g. USAID, other Indonesian government agencies, the ADB, and examine various microfinance plans.

**EVACUATION REVISION:** *The status of ongoing activities is as follows. The Best Practices Study for BPR is in its final write up stage. One seminar with the Credit Bureau arranged by the adviser was just concluded on Palm Oil Lending, and two others as well as three courses are under discussion with them. The pilot regulation and promotion effort for savings and loan cooperatives in Jember, which resulted from the study, is underway and the adviser has been in contact with Asia Foundation to see about USAID inputs.*

*A pilot effort to do a credit rating of microfinance institutions leading to the creation of an Indonesian Credit Rating Agency is in abeyance until the evacuation is terminated. The two activities now scheduled with the Shariah Bureau, a two week visit by Richard Meyer, a distinguished development finance economist from Ohio State University, to review their program and lecture on micro and agricultural finance, and a national seminar on prudential supervision of Shariah Banking are temporarily delayed and the adviser has been busy assuring everyone concerned that they have not been cancelled. The Training Needs Assessment (TNA) for MennegKop is complete and the Partnership Study has been submitted and needs further joint editing by the advisor and the author (who resides in Indonesia), some of which can be done by e-mail over the next few weeks, although it would be far more productive in person. Some preparation is going on for further regional studies, while the adviser edits others which have been completed.*

**Workplan Activity 3:** To assist in developing networks between commercial banks and alternative financial institutions by analyzing the current condition of AFI and SME in Indonesia, to include:

- Examining issues relating to the networking of various financial institutions; special attention must be given to Dabenas and Perbarindo, as proposed bases for networking the pooling of funds, and other linkage possibilities between AFI and mainstream financial institutions, such as the USAID proposed Microlinks project.
- Discussing proposed and potential SME initiatives, with particular attention to Islamic banking institutions and their potential in Indonesia.

- Discussing and negotiating results of these analyses with other actors to encourage a consensus on action, with additional follow-through activity as necessary.

This initiative in the form of a Pooling Fund is already quite advanced in East Java.

**EVACUATION REVISION:** *The Adviser has been actively engaged on the problems of regulating and promoting small microfinance institutions, BPR, Islamic financial institutions and savings and loan cooperatives. Some of this is covered by ongoing or completed research, others are embodied in joint efforts with the sponsoring and regulatory organizations for these financial institutions such as the BPR and Shariah Bureaus of Bank Indonesia, Mennegkop, and various NGOs such as PINBUK, GEMA-PKM, etc. A number of these joint activities, including those with the Shariah Bureau and Mennegkop, are proceeding, at a reduced pace, with what inputs the Adviser can make by e-mail.*

**Workplan Activity 4:** To provide technical assistance in assessing alternative ways to handle SME functions, given different assumptions about organizational structure to BI.

**EVACUATION REVISION:** *The case studies on the problems of external audit of BPR need to be edited and published, and work is proceeding. However, it is difficult to proceed with this away from Jakarta. The restructuring of BPR is proceeding without any input from the adviser, since nothing has been sent him in Washington. In any case, this is now primarily the Asia Foundation's responsibility.*

**Expert on Assistance to Information, Communications and Technology Activities (ICT), including the Ministry of Communications and Information,** a short-term position financed by converting short-term TA.

**Advisor: Idris Sulaiman**

### **Small Medium Enterprise (SMEs) Development**

Assist Comm-Info and USAID SME development efforts with policy formulation and coordination on the use of ICTs by SMEs to improve efficiency, productivity, access to market, technology, capital and business services assistance in Indonesia by the development of applications and linkages with local and foreign partners and in coordination with the government and private sector associations, including a) consensus-building on priorities and strategy on use of ICTs by SMEs with other USAID partners; and b) identification of specific technical assistance to national and regional industry associations, for example within West Java/Bandung region.

### **Private Sector Opportunities in ICT Activities**

Assist the newly established the State Ministry of Communications and Information in facilitating the implementation of the ICT Action Plan, with particular emphasis on those activities that provide increased private sector participation in ICT activities. Conduct two studies of on the best techniques for carrying out improved strategies for private sector leadership in ICT Action Plan implementation..

### **Ad-Hoc Coordination and Policy Work**

- (1) Take a leadership role as appropriate in efforts to encourage private sector leadership of ICT activities in Indonesia.

- (2) Coordinate, organize and arrange workshops, conferences or other special events on behalf of the State Ministry and USAID as requested; help coordinate the Donor to Indonesia Group on ICT, ICT Mission Team and ICT Working Group,
- (3) Respond to ad hoc ICT-related requests from the Ministry as requested in fulfilling its responsibilities as the GOI's executive body for the development and implementation of ICT in Indonesia,
- (4) Respond to ad hoc ICT-related requests from the Indonesian Telematics (ICT) Coordinating Team (*Team Koordinasi Telematika Indonesia*) as requested in fulfilling its responsibilities as the GOI's advisory (and monitoring) body for the development and implementation of the ICT Action Plan,
- (5) Assist with the development of surveys/studies supporting policy analysis leading to recommendations and institution-building for the State Ministry as required.

*Deliverables:*

- *Participate on the USAID ICT Mission team and ICT Working group.*
- *Design and prepare a strategy for follow up for the ICT action plan in accordance with USAID ICT Mission team priorities, and seek opportunities to encourage the GOI to implement that strategy.*
- *Design and prepare a consensus strategy for USAID ICT usage by SMEs. Seek acceptance in implementing this strategy from the GOI in collaboration with other USAID SME activities, both inside and outside the Nathan-Checchi consortium.*
- *Design and prepare a consensus strategy for ICT development in West Java consistent with the USAID West Java working group.*

Work Plan for first half of 2002:

Work Plan Activity 1: Coordinator of ICT-related Events: To coordinate, organize and arrange workshops, conferences or other special events on behalf of USAID and implemented by PEG as requested.

Work Plan Activity 2: Development of USAID Indonesia Strategy for ICT Development: Advise and assist the USAID ICT Working Group.

Work Plan Activity 3: Development of Indonesian ICT National Strategy (Guidelines and Action Plan): Advise and assist the Indonesian ICT (Telematika) Coordinating Team (TKTI) and the newly created Ministry of Communications and Information in fulfilling its responsibilities as the GOI's advisory (and monitoring) body for the development and implementation of the ICT Action Plan.

Work Plan Activity 4: Development of Wartels, Warnets and Telecenters in Indonesia: Advise and assist the TKTI in fulfilling its responsibilities as the GOI's body for the development of Wartels, Warnets and Telecenters in Indonesia in ICT and work with the relevant private sector on these issues.

Work Plan Activity 5: Development of TKTI's FDI policy in ICT: Advise and assist the TKTI in fulfilling its responsibilities as the GOI's body for the development of FDI in ICT and coordinate with ICT-related US companies on FDI related issues.

Work Plan Activity 6: Development of MOIT's Policy on Industrial Development through Cluster Efficiency Improvements in Indonesia: Advise and assist with the industrial

development of privatization policy and of institutions for the leveraging inter-firm linkages in specific core industry clusters.

Work Plan Activity 7: Ad hoc requests: Respond to short run USAID/PEG, TKTI and MenKomInfo, or other GoI agency requests (preparing speech and other material) as requested.

Work Plan for second half of 2002:

**Work Plan Activity 1: ICT-related Events:** To organize, facilitate and attend workshops, conferences or other key events on behalf of USAID and PEG.

**Work Plan Activity 2: USAID ICT Working Group:** Advise and assist the group and on development of USAID Strategy for ICT Development in Indonesia.

**Work Plan Activity 3: Further development of Indonesian ICT Action Plan:** Advise and assist the Indonesian ICT (Inter-Ministerial) Coordinating Team (IICT/TKTI) and the newly created Ministry of Communications and Information in fulfilling its responsibilities as the GOI's advisory and monitoring agency for the development and implementation of the ICT Action Plan.

**Work Plan Activity 4: Development of Telecenters in Indonesia:** Advise and assist the IICT in fulfilling its responsibilities as the GOI's body for the development of Phone and Internet Kiosks (Wartels, Warnets) and Community Telecenters in Indonesia. Work with the relevant other GoI agencies and the private sector on these issues.

**Work Plan Activity 5: Development of IICT's foreign investment policy in ICT:** Advise and assist the IICT in fulfilling its responsibilities as the GOI's body to attract FDI in ICT and coordinate with ICT-related US companies on FDI related issues.

**Work Plan Activity 6: Development of MoCI's Policy on SME Development** through Efficiency Improvements in the use ICTs in Indonesia: Advise and assist with the development of linkages between the ICT Action Plan and SME Action Plan.

**Work Plan Activity 7: Ad hoc requests:** Respond to short run USAID/PEG, IICT and MoCI and USAID/PEG requests.

#### **Grants Advisor/Project Administrator**

**Advisor: Jeffrey J. Povolny**

The Nathan-Checchi consortium grants activity is designed to contribute to Indonesia's economic growth by strengthening economic policies and practices associated with increased openness to international trade and investment and strengthened domestic economic competition. The grants promote sustainable linkages between U.S. and Indonesian institutions whose work is focused on economic policy issues. The principal tasks of the Grants Advisor/Project Administrator are as follows:

**Manage Partnership Grants:** The Contractor shall review work plans, monitor progress toward results, and administer all grants it has awarded or made recommendations for award

to USAID. The Contractor shall determine if all such grants it has awarded are performing and meeting goals and benchmarks as agreed. Contractor shall actively assist USAID regarding grants USAID/ ECG has awarded. All performance problems Contractor identifies regarding all such grants (awarded and recommended) must be addressed and the Contractor must ensure that there is complete and timely communication with the PEG CTO on all major issues. The Contractor is responsible for ensuring that all performance reports, as agreed to under each grant it has awarded, are received in a timely fashion. For grants on which contractor has made recommendations, Contractor shall assist USAID in obtaining these reports. The Contractor shall review on a timely basis the progress reports of these grantees in order to have an overall understanding of the entire range of PEG grants and the goals and objectives that they are seeking to achieve. Problems and opportunities arising during these reviews shall be brought directly to the appropriate grantee and the appropriate grant CTO.

***Note for Ordered Departure:*** *The remaining PEG grants during this period are the IRIS and Georgetown University grants. The grant completion date for the IRIS date was August 31. IRIS should have submitted their 3<sup>rd</sup> quarter financial and activity as well as the end of grant financial and activity reports by now. I am following up with them on these reports. Being in Washington DC may make it easier to get these reports, since the IRIS offices are in College Park, MD and the delays usually seem to be on this end.*

*The Georgetown University grant is scheduled to finish on January 15, 2003. They are current on reporting. The activities of their grant during this time period include providing assistance in setting up independent regulatory agencies, assisting ELIPS II in arranging a visit to the U.S by Indonesian Supreme Court Justice Dr. Bagir Manan and supporting the "business competition" website (Jakarta based). The support includes putting many more English version (translations) competition law materials on the site.*

***PEG Grants continues to provide support and monitoring of the quarterly reporting for the 4 USAID cooperative agreements awarded in 2001 to CARE Indonesia, Opportunity International, RAND and the Rural Development Institute. These activities are not affected by the ordered departure.***

**Audits:** In addition to the audit requirements incorporated in the contract clause FAR 52.2152, the contractor shall implement the audit requirement for the grants awarded under this contract. The contractor will incorporate the requirement for performance of the audit in grant agreements. The statements of work for all planned audits of grants shall be coordinated with USAID, including the CTO. If the grants are awarded to U.S. for-profit grantees, the audit of those grants will be performed by their cognizant audit agencies. If the grantees are U.S. non-profit organizations, their audits will be covered by the provisions of OMB Circular A-133. If the grantees are non-U.S. not-for-profit organizations, those audits will be conducted preferably by auditing firms approved under the Recipient Contracted Audit (RCA) program of the Mission.

***Note for Ordered Departure:*** *This activity affects only PEG Grantees. All PEG Grantees' grants are audited as part of the grantees' annual institutional audits and therefore special audits that specifically address the individual PEG Grants are not required.*

**In Kind Support for NGOs, Civil Society Organizations, and Research Institutions:** Provide direct in kind payment for goods and services to suppliers as appropriate to support or assist Indonesian NGO's, civil society groups and research institutions to help them

conduct activities and programs that further work of the long term advisers, assist implementation of a development strategy for parts of West Java, or to advance the agenda for setting foundations for rapid, sustainable and equitable economic growth. Activities funded by the direct payments should promote sound economic policies and institutions, especially at the local level, help construct a legal and regulatory framework that is conducive to economic growth particularly by small and medium businesses, help provide open access to economic opportunity for all Indonesians, and support knowledgeable public participation in economic policy decision making.

Under the supervision of the COP, direct payments will be administered by the PEG Grants Manager and support staff. Management includes the direct purchase of goods, services or intellectual products from individuals or companies on behalf of the award recipient. The strategy is to relieve the award recipient of the burden of managing funds and completing stringent procurement procedures required by USAID, even under the USAID simplified grant award format. For West Java, the support will be concentrated on major themes of 1) investment opportunities, 2) employment opportunities and 3) interregional trade in selected areas.

A major goal of the West Java Development Strategy is to leverage the various programs and activities of the Mission, as well as those of other donors and stake holders with an interest in West Java. Such leveraging is already a hallmark of the current Direct Payments Program and will be continued under the West Java focus program. Recent direct payment awards have seen an increase of cost share born by the grantee rise from 25% (usually in-kind) to 45 - 50%, and includes the participation of private, NGO and other aid agency partners. Most recently this was the case for the APJII (Association of Indonesian Internet Providers) seminars on ICT issues VOIP (voice over internet protocol), Wireless IT Network Development and the Warung Informasi Teknologi (WARINTEK) Program held by the Ministry of State for Research and Technology –Deputy Minister For Utilization and Socialization Science and Technology (KRT).

**Other Administrative Tasks.** The grants advisor/project administrator is to carry out other supportive/administrative tasks as assigned by the COP. This activity will include taking the lead for PEG on organizing and carrying out general conferences/workshops and related activities.

***Deliverables:***

*Support will be provided to at least 20 small in kind activities. All existing grants, both as issued by the Nathan-Checchi consortium and by the USAID ECG team, administered consistently with USAID standards. For the latter grants, grants manager will provide needed quality control. In addition, the Grants Manager shall provide similar support to the in kind payments program.*

*Concentrating the PEG Direct Payments Program (DPP) on the West Java Development Strategy is intended to provide assistance to at least two of the three target communities, Bekasi, Tasikmalaya, and Garut to expand their development objectives more towards regional development. In order to do this, the goals of the DPP/West Java Program are as follows:*

- *At least two of the three selected kabupatens in West Java will have successfully used the support to address the issues of providing more productive employment opportunities by*

*resolving constraints to economic development that are addressed by the ECG's 4 Intermediate Results.*

- *At least two of the three kabupatens will have identified appropriate partners and stake holders who can provide services and advice. The partners and stakeholders will be local, regional and national. The partners participation will constitutes significant leveraging of SGP resources.*
- *At least two of the three kabupatens will each implement up to 5 support activities under the ECG IRs.*
- *Organize at least three major workshops and or conferences for the PEG component of the overall ECG team.*

**Note for Ordered Departure:** *The PEG Small Grants program continues to move forward toward the objectives stated above with minimal consequences from the ordered departure. November 30 is the due date for small grants applications for the 3 target areas, Bekasi (kota and kabupatren), Garut (home of the Papandayan volcano) and Tasikmalaya (kota and kabupaten). The review of the applications will proceed as scheduled during the first 2 weeks of December. All applications will be vetted for conformity to the administrative and programmatic requirements. Applications which pass this initial review will be summarized and sent to the review team by courier, fax and mail. Team members will write their reviews which the Grants Manager will consolidate. The consolidated reviews will then be sent to all review team members for their consideration and the choice of successful applications will be made by e-mail polling.*

*PEG Grants will then provide the usual support to the grantees, technical and budget revisions, procuring facilities and other in-kind assistance, follow up, monitoring and final reporting. Support will come from the PEG projects office staff in Jakarta and the Grants Manager in Washington DC.*

*PEG Grants has 5 small grants under way at this time, is finalizing 7 small grant awards that were approved just prior to the evacuation. We expect to review about 25 more applications after the November 30 deadline.*

### **Chief of Party**

**COP: C. Stuart Callison**

This position provides leadership, direction. and coordination of Nathan-Checchi consortium activities, principal liaison with USAID, and reporting and technical work as required. The nature and duties for this position are substantially the same as in past SOWs for the PEG activity.

A recent evaluation with respect to PEG was carried out by the Mitchell Group and has been shared in draft with PEG. The findings of that evaluation with respect to the contractor's required annual reports and annual work plans follow (pp iv-v of the March 29, 2002 version):

“On the downside is the deficient quality of the contractor's required annual reports and annual work plans. In some cases, annual reports and annual work plans were not prepared. No work plan has been produced to cover project activities from January 2001 forward, nor has an annual report been completed for this past year. In other cases, the reports lacked

analysis, recommendations, and cohesion against the project objectives and resource allocation. Moreover, with the exception of the 1999 annual report, annual reports were predominantly compiled from individual team member reports and did not include a comprehensive review of the overall PEG project, indicate whether the project was collectively meeting its objectives, or provide historic and prospective financial appraisal of the use of available project resources. The absence of quality annual reports does a disservice to the PEG team since these reports are the ones that external reviews and the public at large first consult to determine whether a project has met the wide-ranging and complex objectives mandated under the terms of its contract.”

*Deliverables:*

1. *Overall management of the PEG activity;*
2. *Rapid, detailed, and comprehensive constructive response to the annual report and annual work plan deficiencies identified by the Mitchell Group evaluation, as noted above.*

**3.b. Current Buy-Ins:** The PEG Project did not authorize or contemplate buy-ins, and there are no delivery orders thereunder outstanding or contemplated.

**3.c. Subcontracting Activities During the Year:** Nathan Associates Inc., as lead contractor of the Nathan-Checchi Joint Venture, subcontracts with the Boston Institute for Developing Economies (BIDE) and Innovative Resource Partners (IRP) to provide certain long-term and short-term technical assistance to the project. This subcontracting activity is on-going.

**4. Performance During the Year:** Individual progress reports of the PEG advisors against their respective SOWs and work plans appear in a separate section of this annual report, as do their Annual Results Matrices, which report in detail on the status of contract and workplan deliverables, as requested by USAID. Below is a summary of the positive effects we think we have had toward achieving the intermediate results (IRs) listed in section 2 above, “Expected Results,” as a specific list of accomplishments under each of the six IRs targeted by the PEG activity:

**2002 Accomplishments by USAID/Indonesia Intermediate Results (IRs)**

**Under SO-1:**

**1) Sound economic policy and institutions**

In pursuit of IR-1, Sound Economic Policy and Institutions, PEG advisors have had positive influence in many policy areas. These included i) budget, fiscal and monetary policies, ii) international and domestic trade, iii) telecommunications, iv) investment, industrial development, and labor relations, v) information and communications technology (ICT), and v) poverty reduction.

**i) Budget, Fiscal and Monetary Policies**

A major success was the passage of the **Repeta FY 2003** into law with a set of clearly defined national priorities. The Repeta appears to be much more successful than last year in involving the entire government and Parliament in picking and balancing priorities, while



maintaining a focus on fiscal sustainability. The Repeta FY 2003 was coordinated by Bappenas with assistance from the PEG-Bappenas team.

The PEG Team continued to advance its understanding of the issues involved in the medium term budget financing and assisted the Ministry of Finance and the Planning Ministry on their **Medium Term Fiscal projections**, including external financing options. We contributed to an improved flow of information from the private sector (Indonesian and foreign) to the Ministry of Finance on various **tax and customs (and labor) issues** and the reverse flow of information from the Ministry to the private sector on the importance of fiscal consolidation and consistent tax policy for macroeconomic stability. Based, in part, on a PEG team suggestion, the distorting luxury taxes on electronics, appliances and other items were reduced or removed in January 2002.

A paper deriving and applying a simple but rigorous indicator of **fiscal sustainability** using spreadsheet analysis was completed. This indicator is useful for understanding how the fiscal stance of the government has changed over time, as the economy is hit by various shocks and as policy itself has been adjusted. This exercise provided crucial input to key players in internal GOI discussions of “exit strategy” vis-à-vis the IMF, and in future fiscal policy formulation in general. The paper also provided “technology transfer” to senior Bappenas staff who have now adopted this approach.

PEG assisted the government in developing a framework for analyzing its options with respect to Paris Club **debt restructuring**. PEG has also been working with the government to assist it in pursuing debt swaps, primarily debt-for-nature swaps. While limited new swaps have been initiated, the government is now talking to creditor governments in an informed manner. PEG also provided support for the **Financial Sector Policy Committee** that oversees the government asset management agency, IBRA, and assisted with a research report on **fiscal decentralization** that was completed in the fourth quarter of 2001 and presented by Bappenas staff in the first quarter 2002.

PEG advisors helped Bappenas prepare monthly and quarterly reports on **macroeconomic projections** and issues and a **monetary survey** completed in the fourth quarter. We also prepared the first **quarterly inflation and deflation watch report** for BI. The inflation rate has been brought down to target and has allowed BI to reduce interest rates, thereby facilitating recovery of bank lending and investment.

## ii) International and Domestic Trade Policies

The PEG team at the Finance Ministry/Coordinating Ministry, the Ministry of Industry and Trade, and Bappenas coordinated their efforts to address a number of **trade-related requests from the Minister of Finance**, including the potential impact of the proposed Batam free trade law on central government revenues, the use of pre-shipment inspection and other customs procedures and a review of policy proposals on tax and trade facilitation from the newly created Crisis Center at the Ministry of Industry and Trade. As a result of team briefings, the Minister issued a decree to strengthen trade policy institutions within the Ministry and renew Team Tariff, an inter-ministerial coordinating body.

PEG also advised the Ministry of Industry and Trade (MOIT), the Ministry of Agriculture, the Coordinating Ministry, Bank Indonesia (BI), and the Ministry of Finance on issues relating to **tariff and trade policy and trade facilitation**. This included Director Generals,

Directors, support staff, and hundreds of other people. Improving the analytical capacity of the Indonesian government in this area is critically important, as vested interests remain keen to promote protectionist agendas. Over a 2-month period PEG conducted a training course for 30 MOIT staff on “**Key Issues in Domestic and International Trade**.” Key areas of focus included decentralization (appropriate taxes and charges), SME policy, privatization, investment policy, anti-dumping, preferential trade agreements, rules of origin as well as the macroeconomics of trade

The PEG team helped the Coordinating Ministry for Economic Affairs develop its position on **industrial and trade policy** for use in cabinet discussions. It provided input into Bappenas and the Coordinating Ministry on **policy constraints facing exporters** in labor-intensive industries—the constraints identified included luxury taxes, uncertainty over some duty exemption programs, several labor regulations, and inefficiencies in trade facilitation.

A PEG advisor prepared a policy analysis memo on **wheat flour import tariff** for Team Tariff and the Minister of Finance. The economic analysis suggested that the imposition of a 5 percent tariff on wheat flour imports would have a limited effect on domestic prices, but there was little justification for a tariff and it would be a bad precedent. However, the alternative might involve even less desirable non-tariff barriers, and the complex of issues needed to be thought through carefully. The Minister of Finance has not yet imposed the tariff, and the wheat flour industry is maintaining its pressure for tariff and non-tariff protection.

The PEG project provided briefings and other studies to help support the continuation of trade policy reforms by the Indonesian Government. PEG is providing extensive assistance to the Government on documenting **regulations affecting foreign providers of services** in the Indonesian market. Some 20 service sectors have been completed, including education and social services such as health care. The results are being used by the Government’s interagency team on services and have led to more active participation by Indonesia in the WTO services negotiations. One result is that the Government is now examining unilateral reforms in sectors like education and distribution.

A PEG advisor in BI prepared a technical report on the new **Asian regionalism** and its implications for Indonesia. This report has promoted awareness of the global trend towards proliferation of regional and cross-regional preferential trade agreements and their implications for third parties such as Indonesia. Awareness of the protectionist role rules of origin have come to play in this context has been increased through this effort. Activities in providing further socialization on the potential costs and benefits of preferential trading arrangements among labor, business and the academic community will build a stronger base for on-going trade liberalization on a multilateral basis. The advisor also prepared a report on the resurgence of **international trade in East Asia** as an input for a Quarterly Meeting of the BI Board of Governors.

The same PEG advisor completed a policy memorandum on **Pre-Shipment Inspection (PSI)** of imports for the Minister of Industry and Trade, who subsequently has led the fight to urge customs reform. Reinstitution of PSI is to be considered if a program of Customs Reform cannot be implemented. The memo led to discussion on this subject with the Minister of Finance and was followed up by a report on **Customs Service Reform** and a more detailed report on PSI. The donor community has placed high priority on customs reform, as has the private business sector. The PEG team is working in collaboration with the IMF on this issue. Private providers of PSI and the World Customs Organization have been made aware

of PEG efforts and are supportive. The reports resulted in memo to DG Foreign Trade at instruction of Minister. Subsequently, reforms aimed at curbing abuses and smuggling, including recommended system of spot checks on containers clearing ports, have been adopted.

PEG completed a report on the “**Competitiveness of Indonesian Products in the United States and Japan,**” covering the top 50 products in each market in comparison with top 15 suppliers, with data through CY 2001. This report was prepared at the request of the Minister of Industry and Trade and has been used by the staff of MOIT and the academic community as a benchmark to evaluate subsequent export performance. MOIT translated the report into bahasa Indonesia for wider dissemination of the results.

Working closely with counterparts from the Ministry of Communications and Transport (MoCT), PEG illuminated the urgent need to promote **port sector reform** to enhance domestic trade through increased private sector participation (e.g. privatization) and deregulation. PEG highlighted the problems associated with earlier port privatizations and provided clear recommendations as to how to extract the greatest competition-driven efficiency benefits from future private sector concessions. As a direct result of these efforts the MoCT has invited PEG to assist in preparing possible candidate ports for privatization. PEG’s analysis on ports has also added weight to the argument that private sector special ports should be deregulated so they can compete with public ports in handling third party cargo. The MoCT recently began deregulating these ports.

PEG continues to play a leading role in promoting better economic governance at the local level. Two major PEG studies were carried out in West Java that dissected the policy process to determine the economic rationality of a number of **local regulations**. Also, PEG in cooperation with MOIT ran a number of regional workshops on regulatory reform (essentially to socialize the simple regulatory review manual described below). The basic purpose of these studies and workshops is to ensure that economic policies generate net benefits (rather than net costs) for the community. This assistance has benefited from a number of PEG Small Grants that have supported the analysis of nuisance regulations, taxes and levies and the problems of restrictions on trade in internal markets.

A PEG briefing note on the **U.S. Container Security Initiative** helped diffuse concerns in Indonesia that this was a protectionist policy of the United States.

### iii) Telecommunications Policies

PEG served in an advisory role to the Ministry of Transport and Communications on a variety of **competitiveness issues in telecommunications**. For example, the PEG recommended changes to the license of PT Telkom which will require Telkom to provide equal treatment for its subsidiaries and competitors. PEG also provided recommendations on the establishment of an **Independent Regulatory Body (IRB) for telecommunications** which allowed a consensus to be reached between the government and private sector. A program of work for the establishment of the IRB is now being developed.

The PEG project evaluated compensation issues arising from changes in the **licensing regulations** affecting the exclusive rights of PT Telkom and PT Indosat. The Project also developed a last-minute strategy for the government’s inter-ministerial infrastructure team

under the Coordinating Minister for Economic Affairs that led to the successful licensing of PT Indosat in several segments of the domestic telecommunications market.

The PEG project developed recommendations on **cost-based interconnection** which were incorporated in a draft ministerial decree. The Project also sponsored a workshop with the private sector to bring about greater transparency and obtain private sector input on the decree. The decree is now being finalized by the Government. It sets the stage for new entrants into the telecommunications market and is a major step forward in bringing about greater competition in telecommunications.

The PEG Project developed recommendations on a new approach to meeting universal service obligations for basic telecommunications. The recommendations are based on a competitive bidding process for **universal service** subsidies and are being evaluated for inclusion in the Government's decree on universal service. If the recommendations are adopted, the decree will lead to a more competitive telecommunications environment that relies on the private sector for meeting Indonesia's basic telecommunications needs.

#### iv) Investment, Industrial Development, and Labor Relations Policies

PEG provided critical assistance to the **Bappenas Third White Paper on Macroeconomics, Policy Issues and Projections for FY 2003**, which included special sections on investment, law and employment. These Bappenas publications are the source of many of the policy ideas subsequently incorporated in formal Indonesian government documents and programs, such as the Repeta. The White Paper published in early 2002 was a major success. At a cabinet meeting in early January, it was promoted by the Coordinating Minister as an example of the type of research and analysis needed elsewhere in the government. In fact, the coordinating minister requested that every minister and echelon one in the government be given a copy. As these ideas were incorporated into the Repeta the cabinet has held a series of meetings on the national priorities and the trade-offs they imply.

PEG provided inputs into the drafting of a new GOI **investment law**, which merges the domestic (1968) and foreign investment (1967) laws into one. A major PEG success was obtaining the insertion of equal treatment for foreign and domestic investors and the shift towards registration (as against approval) of foreign investment.

The PEG report on the “**Competitiveness of Indonesian Products in the United States and Japan**” mentioned above stimulated policy discussion on ways to strengthen Indonesian industries in order to compete more effectively in domestic and international markets.

PEG produced a major report, “**Indonesia's Textile and Apparel Industry**,” on the key external and internal constraints to the development (if not the survival) of Indonesia's textile and garment industries (TTP). There has been considerable interest in this report within MOIT, and it has been used in various internal meetings and forums. PEG counterparts have requested further analysis on how the sector should respond to the changing the international trade regime in TTP. The report was provided to the Indonesian Textile Association by MOIT. PEG's work on textiles and garments has had much impact within MOIT and within the industry itself. There is now widespread understanding (if not concern) regarding the likely impact the changing international trade environment will have on this crucial industry.

PEG/Bappenas completed and published a survey of **industrial relations** in manufacturing firms and among trade union officials and workers, which, together with other PEG research, seminars and consultants, has broadened policy discussions to include labor regulations and industrial relations in general. PEG also helped the Coordinating Ministry for Economic Affairs develop its position on industrial and trade policy for use in cabinet discussions.

#### v) Information and Communications Technology Policies

PEG helped raise Indonesian awareness of the importance of **cyber security** and combating **cyber crime** by sponsoring of the attendance of two high-ranking officials to the APECTEL26 Conference (August 17-23, 2002) on these topics in Moscow, Russia, and by attending the International Symposium of Computer Emergency Response Teams in the Netherlands (August 27-28). Using on material collected at these events, PEG then organized public seminar presentations in Indonesia on these issues, outlining the building blocks of a national strategy towards addressing ICT security risks in Indonesia, including:

- (a) improving IT-security readiness and capacity building, particularly by developing Computer Emergency Response Teams (CERTs) and by providing advice to the Ministry of Communications and Information (MCI) on how to coordinate critical infrastructure protection;
- (b) assisting with the efforts to improve forensic capacity in the Indonesian law enforcement agency;
- (c) strengthening the legal and policy framework to combat cybercrime (by facilitating the drafting of a counter cybercrime bill); and
- (d) raising awareness on the need for greater investment in ICT security.

#### vi) Poverty Reduction Policies

PEG supported efforts in the Coordinating Ministry for Economic Affairs to develop a **poverty reduction strategy** that was consistent with both domestic reality and the desires of the international community. The PEG team supported the efforts of the USAID/ECG Food Policy team to counter protectionist arguments for raising **wheat flour and rice tariffs**, which have not (as yet) been increased. In both cases this should hold down the prices of basic goods and reduce poverty.

## **2) A conducive legal and regulatory framework**

While the main USAID/ECG activity under IR-2, A Conducive Legal and Regulatory Framework, is the ELIPS-II project, PEG advisors have worked closely with its advisors and their host-country counterparts to improve the drafting or implementation of a number of i) new laws and ii) regulatory reforms. Some of these activities have been described above for IR-1 and will only be mentioned briefly here.

#### i) New Laws

As a direct result of PEG/MOIT efforts described below, the MOIT is developing, with PEG assistance, a new **domestic trade law** that would prohibit all forms of tariff and non-tariff barriers in domestic trade. PEG has assisted with the various drafts of this proposed law and it will soon be submitted to an inter-ministerial team for review, before final submission to parliament.

**PEG provided inputs into the drafting of a new GOI investment law, which merges the domestic (1968) and foreign investment (1967) laws into one. A major PEG success was obtaining the insertion of equal treatment for foreign and domestic investors and the shift towards registration (as against approval) of foreign investment.**

PEG facilitated the visit of a US Treasury official to meet with the Governor of Bank Indonesia and his staff to discuss the necessity of a new **money laundering law** and to disseminate to all the banks the know-your customer concept. PEG also facilitated a meeting between the Financial Intelligence Unit responsible for implementing the law, USAID consultants to the FIU, and the Minister of Finance to discuss institutional design issues. Indonesia was one of the countries facing possible sanctions on the basis of UN Security Council resolutions on money laundering but has subsequently made progress in passing a law and in stepping up its cooperation at the international level with efforts to detect and prevent money laundering activities.

The PEG Grants Manager worked with the Center for Strategic and International Studies (CSIS) and the ELIPS II project to conduct the Economic Cost of Terrorism Conference and Workshop, May 7, 8, 2002. A theme that appeared repeatedly during the conference was the fact that domestic and international terrorism impinges on Indonesia's ability to get on with its economic recovery, and that this must be understood and factored into economic decision making. The conference provided an excellent venue to socialize Indonesia's new **money laundering law**, ASEAN efforts to curb abuses of financial systems and the OECD standards on money laundering that Indonesia has yet to meet. The workshop on day 2 was very successful in exploring what Indonesia needs to do to meet the analytical challenges for security following September 11, what effect domestic poverty may have on future efforts to develop Indonesia to forego creating pools of recruits.

The PEG Grants Manager also funded a number of legal initiatives through the Small Grants Program that included promoting **Alternative Dispute Resolution** in labor – management relations, land conflicts and other natural resources conflicts and E-Commerce. Introduction of and training in **laws governing cooperatives and SMEs**, laws to protect the **intellectual property rights and trade marks** of small business owners, and regulation of micro-lending institutions.

The PEG team at the Coordinating Ministry/Finance, the Ministry of Industry and Trade, and Bappenas coordinated their efforts to address a number of trade-related requests from the Minister of Finance, including the potential impact of the proposed **Batam free trade law** on central government revenues. As a direct result of the PEG team briefings, the Minister issued a decree to strengthen trade policy institutions within the Ministry and renew Team Tariff, an inter-ministerial coordinating body.

PEG/BI provided advice on a draft **Law on Non-Bank Microfinance Institutions**, now under review by the Ministry of Finance. It would reform regulations for microfinance institutions, strengthening and making more efficient the regulatory network for rural banks. PEG/MCI used seminars on cybercrime to advocate the strengthening of the Indonesian legal and policy framework to combat cybercrime and the need to draft a **counter-cybercrime law**.

## ii) Regulatory Reforms

Through numerous regional studies, as well as reviews and analysis of local regulations, PEG/MOIT played a lead role in monitoring the **impact of decentralization upon the business climate** and socializing the results of this work through various seminars and regional workshops, promoting better economic governance at the local level. For example, two major studies were carried out in West Java that essentially dissected the policy process to determine the economic rationality of a number of local regulations. Assistance was focused upon developing the necessary institutional and legislative arrangements to prevent the proliferation of **competition and trade distorting regulations** at the local level. As a direct result of these efforts the MOIT is developing, with PEG assistance, the new domestic trade law mentioned above. Also as a result of PEG work, the MOIT is considering developing at the national level a more effective **supervisory framework for local regulations**.

In the regions, PEG/MOIT, along with counterparts in MOIT and regional universities, played a pioneering role in socializing the principles of **good local regulations**. This has included the fundamentals of regulatory review as well the appropriate use of user-charges and taxes. The MOIT and PEG developed a **manual for regulatory review** specifically for local governments. The manual emphasizes the importance of internalizing cost-benefit analysis into the public policy process, as well as the consideration of non-regulatory alternatives, better approaches to problem identification and stronger stakeholder participation. MOIT is socializing the manual to other sections of government, both local and national, and plans to distribute it widely throughout the regions during the first half of 2003.

PEG expanded the successful Small Grants activity and refocused it to support the Mission's West Java Initiative and to help local NGOs address local economic development issues that have arisen as a result of the implementation of **regional autonomy and local regulation** of businesses. These issues have generally been local regulations, taxes, user fees, permits required by the kabupatens, interregional trade barriers and access to credit for SMEs. The small grants have addressed how community groups and local businesses can better advocate their views and issues with regional governing bodies and agencies, promote women's economic empowerment. An innovative initiative has been to promote partnerships between research groups and think tanks located in major cities like Jakarta, with smaller NGOs located in such places as Garut, Tasikmalaya and Bekasi so that the local groups can present expert analysis of the issues and possible solutions to government bureaucrats who are used to telling local groups what solutions they may expect to see.

PEG/MOIT provided extensive assistance to the Government on documenting **regulations affecting foreign providers of services** in the Indonesian market. Some 20 sectors have been completed, including education and social services such as health care. The results are being used by the Government's interagency team on services and have led to more active participation by Indonesia in the WTO services negotiations. One result is that the Government is now examining unilateral reforms in sectors like education and distribution.

As noted above, PEG provided recommendations on the establishment of an **Independent Regulatory Body (IRB) for telecommunications** that allowed a consensus to be reached between the government and private sector. A program of work for the establishment of the IRB is now being developed.

As also noted above, PEG illuminated the urgent need to promote **port sector reform**. PEG's analysis on ports added weight to the argument that private sector special ports should be deregulated such that they can compete with public ports in handling third party cargo. The MoCT recently began deregulating these ports.

PEG provided advice on a draft **Law on Non-Bank Microfinance Institutions**. It would reform regulations for microfinance institutions, strengthening and making more efficient the regulatory network for rural banks. Licensing procedures for new rural banks are now in place and being socialized.

PEG supported the development and socialization of the market-based approach to **promoting SME lending** by Bank Indonesia embodied in **new banking regulations**. The approach is characterized by assisting banks to make SME a profitable strategic focus; the socialization seminars clarify the new policy and make various tools for SME lending available to the banks.

### **3) Open access to economic opportunity**

Some of the work PEG advisors did on IR-1 also contributed to IR-3, Open Access to Economic Opportunity, especially in the fields of i) labor policy and an employment strategy as part of a sound poverty reduction program, ii) deregulating telecommunications and developing ICT and CTCs throughout the country, and iii) improving the efficiency and competitiveness of domestic markets and trade.

#### i) Labor Policy, Employment and Poverty Reduction

PEG provided comprehensive inputs for the Bappenas 2002 **White Paper on employment-friendly labor policies** that will be released in October/November 2002 and prepared policy memos on labor policy, including related **employment and poverty issues**, and edited a book--a collection of papers--on labor policy.

PEG/Bappenas completed and published a **survey of industrial relations** in manufacturing firms and among trade union officials and workers, which, together with other PEG research, seminars and consultants, has broadened policy discussions to include labor regulations and industrial relations in general. This survey provided useful input to and coordination among government staff, employers and labor units that subsequently assisted in the passage of a new **Labor Relations Law**.

Important policy implications for employment of a PEG/Bappenas study on the implications of **minimum wage laws** were discussed widely in the media and at major academic and policy seminars, raising awareness among all the stakeholders involved in setting minimum wages, including officials from the Ministry of Manpower, the Ministry of Industry and Trade, Bappenas, the Central Board of Statistics, and the Coordinating Minister for Economic Affairs. PEG coordinated a team of high level government officials from these same ministries to begin a dialogue with regional governments on **minimum wage policy** for 2003. We believe this dialogue contributed to more modest minimum wage increases in line with expected inflation for 2003, with parties recognizing the need for wage constraint especially given the slowdown in the economy and the possible effects of the terrorist attack on Bali on the national economy.



A major contribution by the PEG team was assisting the government and foreign donors in establishing a **Bali response coordinating team** for economic assistance to Bali, especially in the areas of **income support**. The team coordinates activities between the central government agencies and the Bali government, as well as with donors. A challenge is to ensure effective coordination and implementation of economic and social assistance programs for Bali by 2003Q2, in anticipation that the economic and social impacts of the crisis may worsen in 2003Q2 and Q3. This is ongoing work.

## ii) Telecommunications, ICT and CTCs

PEG served in an advisory role to the Ministry of Transport and Communications on a variety of **competitiveness issues in telecommunications**. For example, the PEG recommended changes to the license of PT Telkom which will require Telkom to provide equal treatment for its subsidiaries and competitors. PEG also provided recommendations on the establishment of an **Independent Regulatory Body (IRB)** for telecommunications which allowed a consensus to be reached between the government and private sector. A PEG briefing note on such an **IRB** was adopted as an AMCHAM position paper and formally presented to the Coordinating Minister, and a program of work for the establishment of the IRB is now being developed.

The PEG project evaluated **compensation issues** arising from changes in the **licensing regulations** affecting the exclusive rights of PT Telkom and PT Indosat. The Project also developed a last-minute strategy for the government's inter-ministerial infrastructure team under Coordinating Minister that led to the successful licensing of PT Indosat in several segments of the domestic telecommunications market. The Government has apparently adopted PEG recommendations that Government consultants have overestimated Telkom's **compensation for lost exclusivity** and that no compensation is due. A final decision must now be made by the inter-ministerial team on restructuring under the Coordinating Minister. This will allow the government to move forward with a duopoly for fixed telecommunications services.

Working with the State Ministry of Communications and Information (MCI), PEG supported continued refinement of the **National ICT Action Plan**, including close examination of 14 of its priority programs, and the completion of a comparative evaluation of the Indonesian national strategy in the regional context.

As a follow-on to the ICT Action Plan, PEG helped with the organization of the **National Dialog on E-Government** organized by IICT/TKTI/MCI and Ministry of Science and Technology, which included a series of lectures on "international best practices in e-government," in their efforts to develop "Government Online" services in Indonesia. PEG assisted in the selection of 22 pilot projects in e-government applications. The implementation of the selected projects is planned over the next three years.

PEG facilitated a number of activities in support of **ICT use by SMEs** and the private sector that were jointly sponsored by USAID/PEG, The Asia Foundation, and Castle/Asia, in close consultation with the members of these organizations and CAPS, Swiss Contact and the ADB SME TA Development Team, such as assisting with the organization of the ICT Week (Oct. 1–7, 2001) organized by IICT and AFACT (Asia Pacific Council for Trade Facilitation and E-Business), which promoted the diffusion of ICT amongst SME exporters and improvement of their knowledge of regional electronic platforms and standards of e-commerce. The

implementation of such standards will have a lasting effect in improving Indonesia's export and import flows. PEG arranged for the Minister of MCI to be present at one of these events, where he made a commitment to promote the use of ICT in SMEs. PEG also facilitated the **Bali Recovery SME program** through ICT development (e-commerce portal participation for arts and crafts SMEs)

PEG continued to help counterparts in the MCI complete a "**Guidebook on Warnet and Telecenter Development** in Indonesia" (forthcoming), which includes an overview of key issues, a survey of existing internet kiosks in a number of key provinces, useful lessons learned about private sector participation in community telecenter (CTC) development, and contributions from relevant organizations (Telephone and Internet Kiosks operators associations), promoting CTCs to widen access to E-Government services.

PEG helped raise Indonesian awareness of the importance of **cyber security and combating cyber crime** by sponsoring of the attendance of two high-ranking officials to the APECTEL26 (August 17-23, 2002) Conference on these topics in Moscow, Russia, and by attending the International Symposium of Computer Emergency Response Teams in the Netherlands (August 27-28). Using on material collected at these events, PEG then organized public seminar presentations in Indonesia on these issues.

PEG also assisted with the planning, the selection of invitees and the provision of reports to meetings of the **Donor ICT Group** on Indonesia. At these meetings the donors discussed progress of the ICT Action Plan and considered pilot project proposals from various government agencies. Donors also updated each other on their work programs in support of Indonesian ICT development and discussed coordinated follow-up on the ICT Action Plan priorities. Eight of the donor organizations attended (USAID, World Bank, JICA/JBIC, AusAID, CIDA, Swiss Contact, ADB, UNDP and GTZ).

### iii) Domestic Markets and Trade

Through numerous regional studies, as well as reviews and analysis of local regulations, PEG-MOIT has played a lead role in monitoring the **impact of decentralization upon the business climate** and socializing the results of this work through various seminars and regional workshops. Assistance has subsequently focused upon developing the necessary institutional and legislative arrangements to prevent the proliferation of competition and trade distorting regulations at the local level. As a direct result of these efforts the MOIT is developing, with PEG assistance, a new domestic trade law, as noted above.

PEG continues to play a leading role in promoting better **economic governance at the local level**. Two major studies carried out in West Java that essentially dissected the policy process to determine the economic rationality of a number of local regulations. Also, PEG, in cooperation with MOIT, ran a number of regional workshops on regulatory reform. The key outcome from these studies and workshops is to ensure that economic policies generate net benefits (rather than net costs) for the community.

The PEG project developed recommendations on **cost-based telecommunication interconnection** that were incorporated in the Government's draft decree. It sets the stage for new entrants into the telecommunications market and is a major step forward in bringing about greater competition in telecommunications.

PEG analysis of domestic ports illuminated the need to promote **port sector reform** through increased private sector participation (e.g. privatization) and deregulation and added weight to the argument that private sector special ports should be deregulated such that they can compete with public ports in handling third party cargo. The MoCT recently began deregulating these ports.

PEG has assisted the MOIT in developing capacity to monitor the efficiency of the **food distribution system**. This has included database training for the MOIT staff, collecting and processing daily commodity price data from the regions, as well as recommendations on improving data collection and processing. As a demonstration of what can be done with this data, PEG carried out an analysis using data for key food commodities across a number of provinces to monitor distribution efficiency.

Using simple econometric techniques PEG also provided MOIT with a simple framework for estimating the long run impacts of changes in fuel prices on food (and other) prices.

#### **4) Knowledgeable public participation in economic decision-making**

PEG workshops and seminars are used to disseminate the analytical results of our surveys and studies to interested members of the public, and we encourage local press coverage of these events. PEG advisors assisted Bappenas prepare the Annual Action Plan (Repeta) for Parliamentary debate and approval, thus involving public representatives in decisions affecting some of the most important aspects of the Government's macroeconomic policy framework and policy priorities. PEG advisors also helped the Ministry of Finance and Bank Indonesia with detailed reports to Parliament that were subsequently made public and increased the transparency and understanding of monetary management.

PEG support to **ICT development** in Indonesia, especially community telecenters, SME use, and e-government, is aimed at providing more timely and relevant information to the public, which will enable more informed public participation in decision-making.

PEG support for the establishment of **independent regulatory bodies** (IRBs) will hopefully lead to the enforcement of regulations that protect the public interest. A briefing note on an IRB for telecommunications was adopted as an AMCHAM position paper and formally presented to the Coordinating Minister for Economic Affairs.

The Minister of Finance requested that the PEG team input on improving **economic diplomacy** be used in the upcoming reorganization. They have begun to work on the details to improve training, and other elements should follow. PEG contributed to an improved flow of information from the private sector (both Indonesian and foreign) to the Ministry of Finance on various tax and customs issues and to the reverse flow from the Ministry to the private sector on the importance of fiscal consolidation and consistent tax policy for macroeconomic stability.

PEG administered 5 grants made under its contract that were extended into 2002. Activity funded by one PEG grant, to the Asia Foundation, was successfully completed in August 2001. The total value of the 6 Peg grants was over \$4.6 million. PEG also supervised administration and monitoring of four grants funded directly by USAID. These grants totaled approximately \$3.4 million, of which \$1.4 million was for micro-enterprise development.

These PEG-administered grants have resulted in **strong partnerships between U.S. and Indonesian institutions and organizations**. Important relationships have been established with the Indonesian Competition Commission, the Jakarta Stock Exchange, legislative committees that oversee national economic policy, and selected local government administrations. **As a result of the USAID/PEG grants programs, Indonesian national and regional universities, think tanks, NGOs and research groups have a much increased capacity to advise government** on decentralization issues, barriers to trade and investment opportunities, promoting healthy competition, liberalizing Indonesia's trade regime and financial and corporate restructuring.

PEG expanded the successful **Small Grants** activity and refocused it to support the Mission's West Java Initiative and to **help local NGOs address local economic development issues** that have arisen as a result of the implementation of regional autonomy and local regulation of businesses. These issues have generally been local regulations, taxes, user fees, permits required by the kabupatens, interregional trade barriers and access to credit for SMEs. Out of 190 total applications 50 were reviewed in FY 2002, and out of 55 total awards 23 were made. The total value of the program to date is nearly \$411,000.

PEG organized a “**Young Economists' Seminar**” involving six renowned international speakers and attended by economists from around the country, in cooperation with the World Bank and AusAID, and co-edited a book on economic policy post-crisis.

#### **Under SO-14:**

##### **5) Financial sector restructured and governance improved**

In the financial sector, PEG advisors made significant contributions in i) an overview of the pressing issues in the financing sector, ii) microfinance and SME lending policies, iii) monetary policies, and iv) bank supervision. They also provided technical advice in support of BI's Transformation Project, to adjust it to its more limited roles.

##### **i) Overview**

A PEG consultancy cataloged the issues in the financial sector, banking and capital markets for input to government priority setting. Issues flagged included deposit insurance, a comprehensive financial sector authority, the role of State Bank, constraints to capital market development among others. This study has been instrumental to educating policy makers and informing the debate in these areas.

##### **ii) Microfinance and SME Lending**

PEG supported the drafting of a ministerial decree setting up a task force to define the parameters for a **Credit Reference Bureau**. This has been approved by the line Ministers and Ekuin but is held up by the Ministry of Finance. A credit reference bureau like Equinox or Dun and Bradstreet in the U.S. enables commercial lenders to access the credit history and other data on borrowers and would strengthen commercial bank SME lending capacity.

PEG also initiated work with The Asia Foundation to help the rural banks (BPRs) establish a **Credit Rating Agency**. A credit rating agency like Standard and Poors provides credit

ratings of financial institutions and their credit instruments and would also facilitate access to more funds for on-lending to SMEs.

PEG supported the development and socialization of the market-based approach to promoting **SME lending** by Bank Indonesia embodied in new banking regulations. The approach is characterized by assisting banks to make SME a profitable strategic focus; the socialization seminars clarifies the new policy and makes available various tools to the banks for SME lending.

These activities have been reinforced with a number of PEG Small Grants that have addressed the issues of **credit access for SMEs**, the role of state-owned enterprises in financing SMEs, and **the regulation of microlenders and Islamic banks**.

### iii) Monetary Policy

As noted above, a PEG advisor prepared the first quarterly **inflation and deflation watch** report for BI. The inflation rate has been brought down to target and has allowed BI to reduce interest rates, thereby facilitating recovery of bank lending and investment.

### iv) Bank Supervision

PEG supported a working group on **external audit of rural banks**, which has been developing teaching case studies for their external audit, and assisted the Asia Foundation with a project for the restructuring of troubled smaller banks.

The PEG monetary policy advisor in BI worked with KPMG/BARENTS, the IMF, the ADB and USAID to conduct a seminar on **deposit insurance** with active participation of the MOF, IBRA and BI, including the Senior Deputy Governor. The seminar has led to follow-up actions by the government to put in place the necessary decrees and institutional arrangements as it moves to back off from the costly blanket guarantee and towards a limited coverage deposit insurance system that will strengthen transparency and monitoring of the banking system.

The PEG SME advisor in BI organized a pilot effort for **regulation and promotion of savings and loan cooperatives** and other microfinance institutions in Jember, East Java, stemming from a national survey. The commitment of the Jember Regent was obtained and a kickoff seminar scheduled.

PEG worked closely with the Indonesian government economic team and individuals from the US Embassy to identify ways for the Indonesian government to respond to United Nations Security Council resolutions requiring countries **to identify and freeze assets of known terrorists**.

## 6) Public sector policy and governance improved

PEG worked with MCI to outline the building blocks of a **national strategy** towards **addressing ICT security risks** in Indonesia that include:

(a) Improving IT-security readiness and capability building particularly in developing their Computer Emergency Response Teams (CERTs) by the private sector through facilitating them to establish of "Secure-Indonesia FIRST - (Forum for ICT Incidence Response and

Security Teams) as well as providing advice for building a coordination team for critical infrastructure protection by MCI.

(b) Assisted with the efforts to improve forensic capacity building in the Indonesian law enforcement agency.

(c) Advocacy to strengthen the legal and policy framework to combat cybercrime (by facilitating the drafting of a counter cybercrime bill).

(d) Raising awareness on the need for greater investment in ICT security.

PEG work on anti-money laundering helped to move forward the establishment of PPATK (**financial intelligence unit**); and PEG assisted non-PEG consultants with issues in **food policy, money-laundering and the financial sector architecture**, including the organization of a **financial system safety net** seminar series to take place in early 2003 with Bearing Point and with other donors, and with active participation of BI counterparts. This work is helping to move forward a **deposit insurance** system to replace the current blanket guarantee and will enhance financial stability, which is essential to the recovery of investment and growth.

The Minister of Finance requested that the PEG team input on **economic diplomacy** be used in an upcoming reorganization. They have begun to work on the details to improve training. PEG also worked to improve the Coordinating Ministry and the Ministry of Finance **organization, presentation and focus**, in particular for meetings with International groups.

A PEG paper analyzing price distortions and revenue impacts of **value-added tax (VAT) exemptions** provides an independent analysis of the revenue potential of the VAT, which Bappenas will use to focus on upcoming tax reform proposals. It also improved the analytical capacity of Bappenas staff, who are now able to use this approach in the future.

With Universitas Parahyangan, PEG completed a report on **governance in the minimum wage setting** process. Suggestions were made to improve stakeholder participation, transparency and accountability.

PEG analyzed the **impact of the Bali bombing** and assisted the GOI and donors in organizing their **response to the Bali crisis**, especially in the areas of conflict resolution, security and income support.

A PEG briefing note on the **U.S. Container Security Initiative** helped diffuse concerns in Indonesia that this was a protectionist policy of the United States.

## 5. Summary of PEG Training Activities

Within this reporting period PEG had 32 training activities, 24 in-country with a total of 1906 participants and 9 overseas involving 22 participants, with an average 23% participation by women. PEG fully supported 19 activities and partially supported 13 events.

*In-country Training:* PEG-Bank Indonesia held 2 seminars/workshops for the Ministry of Cooperatives and SME Development on cooperative issues and 2 training courses on research methodology in financial issues. There were 7 training activities (seminars and lectures) in Information and Communication Technology (ICT) development. PEG-MOIT held 7 training activities on issues in domestic and international trade, decentralization, and investment policy. PEG-Bappenas held 2 seminars on labor issues. An international

conference on the “Economic Cost of Terrorism: Indonesia’s Responses” was organized jointly by PEG, ELIPS, and CSIS in May 2002.

*Overseas Training:* PEG sent 16 people to the U.S. to attend workshops/seminars, conferences and training courses and 8 people to other countries. At the request of ECG/USAID, PEG sent 4 officials of the Ministry of Finance and 3 officials of the Central Bank of Indonesia on a study tour in government securities. Two private sector figures in telecommunication and information were sponsored to attend ICT workshops in the US. Jointly with a PEG Grantee, the Georgetown University Law Center, PEG sponsored 7 people from the legal society to attend the ABA Annual Spring Meeting followed by a visit to the US FTC. PEG-MOIT sent 2 officials of the Ministry of Industry and Trade to Singapore to attend a regional conference in e-government and e-governance. PEG-Bank Indonesia sent one senior BI director to two conferences in Beijing and Malaysia.

**6. Statement of Work:** As noted above in 3.a., two long-term advisors left the project during the reporting period and none were added, with consequent changes in the contract SOW. These are discussed in subsection 3.a. (page 2). There are no other changes to report.

# PEG TA TEAM

## ANNUAL RESULTS MATRICES

### CONTENTS

<u>Advisor</u>	<u>Page</u>
Macro/Policy Finance/Banking Advisor at Coordinating Ministry/Finance /Bappenas—William Wallace & Peter McCawley	54 - 55
Technical Assistance on Macroeconomic Policies in the Coordinating Ministry for Economic Affairs—Timothy Buehrer	56 - 57
Macroeconomic Advisor at Bappenas—Kelly Bird	58 - 60
Labor Advisor at Bappenas—Chris Manning	61 - 62
Real Sector Advisor at Bappenas—Stephen V. Marks	63 - 64
International Trade Specialist, Ministry of Industry and Trade —Steve Magiera	65 - 67
Domestic Trade Advisor, Ministry of Industry and Trade—David J. Alan Ray	68 - 69
Resident Advisor on Monetary and Exchange Rate Policy and Research, Bank Indonesia—William “Ted” James	70 - 73
Small Scale Adviser, Bank Indonesia and Other Institutions —Thomas A. Timberg	74 - 76
Expert on Assistance to Information, Communications and Technology Activities (ICT), including the Ministry of Communications and Information —Idris Sulaiman	77 - 80
Grants Advisor/Project Administrator—Jeffrey J. Povolny	81 - 83



## Partnership for Economic Growth (PEG)

### PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for January 1, 2001 –December 31, 2001				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Wallace	Bappenas	Regional/Central Budgeting issues	Study	Incomplete: A memo on regional budgets and development expenditures completed, assistance to Bappenas on revenue issues between the regions and center; but a reduction in consultant LOE and a lack of critical information prevented the main study from being completed.
		Institutional Capacity Building	Assistance to Monthly Reports, White Papers and the Repeta	Monthly reports continue, the White Paper in January 2002 was cited by the Coordinating Minister as an example for other policy groups in the government. The Repeta was a breakthrough in terms of government and parliament agreement on priorities.
Wallace	Coordinating Ministry/ Finance	Policy Focus	Assistance to GOI work on Medium Term Fiscal and Macroeconomic projections as well as Trade policy assistance	On Going: Budget assistance is input to budget strategy for post-2003. Trade policy assistance contributed to reestablishment of Team Tariff, work on trade promotion, customs reform, tariffs for wheat flour and rice.
		Institutional Capacity Building	Economic Diplomacy study, other training and assistance during presentations to international audiences at home and abroad	On Going: input to the organization of economic diplomacy

## Partnership for Economic Growth (PEG)

<b>Status of Activities and Deliverables in Agreed-Upon Annual Workplan for January 1, 2001 –December 31, 2001</b>				
		Crisis Support	Policy memos and presentations on specific crisis topics as requested.	Complete: Numerous memos, presentations, inputs to GOI policy stance. Of special note input to USAID/GOI Bali recovery strategy.
McCawley/ Kenword/ Rieffel/ Embassy Staff	Finance/ Coordinating	Financial Bank Restructuring/Kenword	Study/presentation: Ke Mana Indonesia's Financial Sector	Completed: Good overview of the issues across the sector, valuable input to GOI policy makers on the issues and options.
		Donor Support/McCawley	Study/presentation: Indonesia's International Economic Diplomacy	Complete: Input to changing procedures and institutional structures at the Ministry of Finance, recommendations under review .
		Private Sector Capital Flows/Rieffel	Study/presentation: External Financing for Indonesia Post 2003	Complete: Recommendations being used by GOI in assessing financing for 2004.
	Note: This long term position was initially designed as one consultancy, but timing issues and LOE restrictions necessitated responding to the deliverables through a series of consultancies			

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables from 1 January 2002 to 25 July 2002				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Buehrer	Perekonomian/ DepKeu	Identify and analyze key macroeconomic policies affecting the recovery of the Indonesian economy and the impact of the recovery on the poor.	Support for debt management  Fiscal policy support	<b>On target.</b> Provided support to the Coordinating Ministry and the Ministry of Finance particularly on the BLBI issue and on efforts to exit the Paris Club at the end of 2003. This work will need ongoing support from AID in 2002 and 2003.  <b>On target,</b> expanded this work in the context of the government's effort to develop a medium term fiscal framework. The Ministry of Finance will need ongoing assistance in this area.
		Improve the capability of the Office of the Coordinating Minister to track the performance of the Indonesian economy and anticipate policy issues.	Flash report on the macroeconomy for the Coordinating Ministry  Maintain databases on trade, inflation, monetary issues, exchange rate  Mainstreaming poverty issues	<b>On target.</b> There is demand for continuing this report.  <b>On target,</b> these have been handed over to various other PEG advisors.  <b>On target,</b> this is an ongoing activity where we are working to improve the ability of government staff to consider the impact of all policies on poverty.
		Respond to requests from the Office of the Coordinating Minister for Economic Affairs as required.	Various memoranda in support of the Office of the Coordinating Minister for Economic Affairs  Support for the government's effort to expand its dialog with the donor community on issues relating to economic affairs.	<b>On target,</b> this is an ongoing activity. Have prepared memoranda on a wide range of subjects.  <b>On target,</b> this is an ongoing activity. Have assisted in the preparation of materials for presentation to foreign audiences regarding government policies.

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables from 1 January 2002 to 25 July 2002				
			Support on trade issues for the Ministry of Finance.	<b>On target.</b> The Ministry of Finance continues to seek assistance on a range of trade-related matters from a number of PEG advisors. My work has focused on assisting the Ministry to understand tariff revenue related issues.

## Partnership for Economic Growth (PEG)

### PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period; **Consultant Kelly Bird**

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for January 1, 2002 –December 31, 2002				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLES	STATUS
<b>Bird</b>	<b>Bappenas</b>	<b>Policy Direction:</b> <b>(1) Macro-economic policy</b>	<i>Work with Bappenas (memos, training, estimation, model building) to improve monetary, macro and budgetary projections for Repeta 2004:</i> (i) Memos as part of the consultants tasks in macro-economic policy analysis (ii) Assist the Planning Ministry White Paper overview the macro situation and the policy reforms. (iii) Planning for the Repeta for 2004 is ongoing.	Completed: several memos on macro-economic policy analysis Completed in December and distributed at the CGI in January. Ongoing
		<b>(2) Trade, labor and investment policies</b>	<i>Memos and briefings on developments in the investment law:</i> (i) Memos and briefing papers as input into to the Planning Agency, the Coordinating Ministry and Ministry of Finance regarding investment climate, trade policy <i>Assistance to the white paper on labor issues:</i> (ii) Assist the labor markets advisor (Chris Manning) on labor policies. <i>Series of studies on the labor policies and poverty:</i> (iii) With the labor markets advisor supervise a study on good governance in the minimum wage setting process (iv) Assist the labor markets advisor	Several memos completed as input into trade and investment policies. Areas covered included the draft law on the Batam Free Trade Zone, export policies luxury taxes, and the draft investment law.  Ongoing: The Consultant is assisting Bappenas use this material for the whitepaper.  Mostly completed: Together with labor markets advisor Chris Manning, supervised a major survey/study by SMERU on labor relations, and a study by UNPAR on governance in MW process.

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for January 1, 2002 –December 31, 2002				
			supervise a study on labor relations (v) Carry out a study on link between minimum wage increases and poverty.	Poverty study postponed until 2003
		<b>(3) Institutional capacity building</b>	<i>Improved staff capability:</i> Assist in directing policy research efforts (macro; employment with Chris Manning), continued work on monthly and annual white papers, monetary reports to cabinet; assist staff in macro forecasting as part of the budgetary and Repeta processes.	2003 Macro white paper completed. Monthly monetary reports well established. Forecasting is ongoing work.
		<b>(4) Policy Analysis for Crisis Support</b>	Policy memos and presentations on specific crisis topics as requested.	Completed: Numerous memos, presentations, inputs to Bappenas and GOI policy. Assisted the GOI in its economic and social response to the terrorist attack in Bali, providing GOI with input on establishing a Bali response team under the Coordinating Ministry for the Economy. Worked with Bappenas, the Bali response team, and the Bali local government to identify institutions and social safety net programs for Bali.

### Key accomplishments in 2002

- (i) Input to the investment law especially in areas related to providing foreign investors with guarantees of national or equal treatment with domestic investors, proposals for eliminating the 30 year limit on foreign investment and remaining divestment rules; shift towards registration of foreign investment.
- (ii) Input to the reduction/elimination of luxury taxes (with William Wallace)
- (iii) Input into the draft law on the Batam Free Trade Law (with William Wallace)

## Partnership for Economic Growth (PEG)

- (iv) Input into the minimum wage determination process for 2003, which led to wage restraint whereby minimum wage increases took into account the contraction in modern sector employment in 2002, but at the same time compensated workers for inflation (with Chris Manning).

## Partnership for Economic Growth (PEG)

### PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for January 1, 2002 –December 31, 2002				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Manning	Bappenas	Overall leadership of technical assistance, under the guidance of the PEG Bappenas consultant (K.Bird), on formulating better labor policies. The TA included field surveys, participation in seminars, completion of memos and research papers on labor policy at the Bappenas, culminating in a major report for a government White Paper on this subject.	Draft and final reports (approximately 40,000 words, tables and figures) for preparation of the Bappenas White Paper on labor policy	Completed.
		A review of the current employment relations and dispute resolution laws and TA on improving industrial relations policies	Supervision of the report on a major survey by SMERU, and a short-term consultant's report, on industrial relations policy in Indonesia. Presentation of the main findings of these studies in the consultant's own report on labor policy submitted to Bappenas.	Completed
		Assistance to the PEG subcontractor SMERU for materials to help district governments on labor policy	Development of a simple manual on minimum wage setting, designed in comic-book format, for provincial and district governments	Completed
		Technical advice on an employment creation strategy to Bappenas and the Coordinating Ministry of Economic Affairs	Participation in discussions and completion of a series of memos on employment strategy and poverty alleviation for high level policy makers	Completed (follow-up work by B. Wallace and K.Bird on-going)
		Improvements to the labor monitoring database and monthly reports at Bappenas	Technical support to the staff of the Directorate of Manpower on several indicators of quarterly and annual change.	Completed



## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for January 1, 2002 –December 31, 2002				
		Capacity building activities with PEG grantee IRIS	Planning and execution of four workshops in Makassar, Malang, Medan and Palembang on regional development and fiscal policy for February- July 2002. Technical advice on regional university programs, and participation in discussions of labor policy at the national parliament (DPR)	Completed

## Partnership for Economic Growth (PEG)

### PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for July 1, 2002 –December 31, 2002				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Marks	Bappenas	Policy Direction	<ul style="list-style-type: none"> <li>• International tax revenue comparisons study</li> <li>• Fiscal sustainability study</li> <li>• VAT Analysis</li> <li>• Susenas-based income tax study</li> <li>• Econometric study of cigarette excise taxes</li> <li>• White paper on industrial policy</li> <li>• Three major revisions and extensions to the existing Bappenas macro model</li> <li>• Detailed commentary on UN recommendations on industrial policy.</li> </ul>	<ul style="list-style-type: none"> <li>• Completed</li> <li>• Expositional revisions of the paper underway; substantive analysis completed.</li> <li>• Essentially completed based on 1995 IO table; may be updated if 2000 IO table can be obtained.</li> <li>• Underway. Preliminary estimates obtained using 1999 Susenas.</li> <li>• Underway. Seminar to be given to inter-agency fiscal analysis team in May.</li> <li>• Probably will not be done, to allow time for higher priority activities on income tax and excise tax above, as requested by the Director for Fiscal and Monetary Affairs at Bappenas and the Director of the Fiscal Analysis Bureau at the Ministry of Finance, respectively.</li> <li>• In lieu of this activity, the higher-priority tax comparisons study, fiscal sustainability study, and VAT analysis were done, all at the request of the Director for Fiscal and Monetary Affairs at Bappenas.</li> <li>• Completed</li> </ul>

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for July 1, 2002 –December 31, 2002				
		Institutional capacity building	<ul style="list-style-type: none"> <li>• Assistance to KPPU on day-old-chicks industry investigation</li> <li>• Analysis of announced energy price increases using IO table</li> </ul>	<ul style="list-style-type: none"> <li>• Completed</li> <li>• Completed</li> </ul>
		Policy Analysis for Crisis Support	<ul style="list-style-type: none"> <li>• Series of memos on wheat flour import policy</li> <li>• Series of memos on relations with the IMF</li> <li>• Speeches and talking points for senior officials, and shorter studies of use to the Ministry</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing</li> <li>• Completed</li> <li>• A number of these have been completed</li> </ul>

## Partnership for Economic Growth (PEG)

### PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period

Status of Activities and Deliverables in Annual Workplan for 2002				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Magiera	MOIT	Tariff Policy Reform	Policy memorandum on trade policy issues as requested.	<ul style="list-style-type: none"> <li>• Provided briefings on Indonesia's trade policies, and recommended improvements in the interagency trade policy process.</li> </ul>
	MOIT	Support for Trade Negotiations	Provide technical assistance and training on multilateral trade negotiations, including the WTO built-in agenda on agriculture and services.	<ul style="list-style-type: none"> <li>• Completed reports on barriers to trade and investment in environmental, communication, education, health, and distribution services (approximately 25 sub-sectors).</li> <li>• Prepared a report on the possible benefits of a multilateral agreement on selected services in markets of interest to developing countries.</li> <li>• Briefed negotiators on Indonesia's agricultural obligations in the WTO. Provided in-depth information on agricultural negotiating strategies for developing countries.</li> </ul>
	MOIT	APEC Action Plan	Support APEC action plan and other APEC activities.	<ul style="list-style-type: none"> <li>• No input on Indonesia's APEC action plan was needed.</li> <li>• Supported a successful MOIT bid for an APEC capacity building project on food safety standards. PEG will co-sponsor a symposium on food safety for all APEC developing countries in June of 2003.</li> </ul>
	MOIT	Anti-Dumping and Safeguards	Develop administrative procedures based on international best practices.	<ul style="list-style-type: none"> <li>• Recommended an independent trade remedies authority and changes to Indonesian anti-dumping/safeguard regulations based on best practices for national interest, the lesser duty rule, and</li> </ul>

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Annual Workplan for 2002				
	Ministry of Communications and Transport	Telecommunications Regulatory Reform	Develop a modern telecommunications regulatory framework and assist in the implementation of Indonesia's Telecommunications Law	<p>transparency,</p> <ul style="list-style-type: none"> <li>• Organized a workshop and developed recommendations that led to a consensus between the private sector and government on a cost-based interconnection decree.</li> <li>• Developed a new approach for meeting universal service obligations that could lead to greater private sector involvement in the build-out of Indonesia's telecommunications network.</li> <li>• Provided recommendations for an interim agreement on compensation for lost exclusivity that averted a legal crisis for the Government.</li> <li>• Conducted a detailed review and provided recommendations on compensation for lost exclusivity that could lead to Government savings of \$100 million.</li> <li>• Successfully introduced new language into telecom licenses that could ensure that downstream subsidiaries and competitors are treated equally.</li> <li>• Helped develop a consensus between the government and private sector on the establishment of an independent regulator for telecommunications.</li> <li>• Was the featured speaker at AMCHAM luncheons and prepared a formal AMCHAM briefing on regulatory issues for the Coordinating Minister.</li> <li>• Reviewed policy options for broadband communications services and provided recommendations on policies for VOIP.</li> </ul>

## Partnership for Economic Growth (PEG)

<b>Status of Activities and Deliverables in Annual Workplan for 2002</b>				
	MOIT	Enhancing Industry Competitiveness	Complete sector studies on regulatory reform and competitiveness issues. (Replaces activity on export performance)	<ul style="list-style-type: none"> <li>• Completed a study on the negative impact of decentralization on the quality of higher educational services.</li> <li>• Other studies, as requested by the Business Solutions Center, are being planned.</li> </ul>
	MOIT/OTHER	Short-Run Staff Requests	Respond to short run staff and other ad hoc requests, and prepare speeches as requested.	<ul style="list-style-type: none"> <li>• Responded to general requests for information on trade policy and telecommunications regulatory reform. While on evacuation, held discussions and coordinated work program with Washington think tanks, World Bank, and US government agencies.</li> </ul>

## Partnership for Economic Growth (PEG)

### PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period

Status of Activities and Deliverables in Agreed-Upon Annual Workplan dated Jan 1, 2002 –December 31, 2002				
ADVISOR	COUNTER-PART	ACTIVITY	DELIVERABLE	STATUS
Ray	MOIT	Competition Policy and Deregulation	Policy memos and papers in support of legislation and institutions to promote trade & competition. Training seminar on competition & trade.	Completed: a) Major paper on developing new regulatory framework to promote competition b) Various training and presentations in Jakarta on regulatory reform
		Distribution Systems	One policy study or equivalent, policy memos and training to assist in the analysis of domestic price data Analysis and short memos on the impact of key events upon food prices	Completed: a) With consultant used domestic price data to monitor distribution efficiency. Was also able to highlight problems with data collection/storage and processing b) Analysis and memo on the impact of fuel price increases on food and general prices
		Conducive local regulations	Work with local universities on such factors as various socialization and training workshops	Completed: a) Participated in university training workshops in Makassar, Palembang, Medan and Jayapura b) Regulatory review workshops with MoIT counterparts in Lampung, Bali and Manado c) Developed regulatory review manual for local governments
		Decentralization and Domestic Trade	One or more regional studies on the impact of decentralization upon the business climate Frequent updates on problem local regulations Assistance for MoIT in developing a new	Completed: a) KPPOD Desk study 700 local regulations, SMERU study on business climate in West Java, BIGS study b) Various reports and memos on problem regulations for MoIT counterparts

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Agreed-Upon Annual Workplan dated Jan 1, 2002 –December 31, 2002				
			national law on free internal trade	c) Assistance to MoIT in the form of memo/policy papers and briefing sessions on developing the draft for the free internal trade law . Incomplete: d) SAWALA study and REDI survey – both to be completed in first quarter 2003
		Port Sector Reform	One policy study on improving private sector participation in the port sector One policy study on laws and institutions governing ports in the decentralizing era National workshop on port sector development	Completed: a) Major study on options for increasing PSP in ports b) Study on the need to liberalize private sector ports under decentralization Incomplete: c) National workshop on port reform due to ordered departure
		Industrial Competitiveness	Papers and memos as input to the development of a new industry policy vision at MOIT. At least 2 sectoral studies	Completed: a) Various papers and memos for the Minister and Head of the R&D Agency on industry policy b) Two sectoral studies completed: a. Textiles and Garments and b. Petrochemicals and plastics.



## Partnership for Economic Growth (PEG)

### PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period.

Status of Activities and Deliverables in Annual Workplan for 2002				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLES	STATUS
William E. James	MOIT	Analysis of Indonesia's International Competitiveness in Non-Oil Exports	Provide analysis of Indonesia's Competitiveness in 50 largest non-oil export products in the two largest markets, Japan and USA.	A comprehensive report was prepared using import data through 2001. The staff of MoIT expressed appreciation for the report and requested follow-up activity to evaluate performance in major markets of key Indonesian products, particularly textiles and apparel. A Report on Textiles and Apparel was subsequently prepared (with David Ray and Pete Minor), for impact see D. Ray result's matrix.
William E. James	MOIT/MOF	Provide Institutional Support for Market-Friendly Policies: Assist in assessing problems in customs administration and suggest reforms.	Several reports and memos were prepared on customs reform and preshipment inspection of imports.	Reinstitution of a form of Preshipment Inspection is under active consideration by the GOI until comprehensive customs reform can be undertaken.
William E. James	BI	Conduct Research on Inflation and Monetary Policy Issues and on Productivity and Real Sector Growth.	Technical reports were prepared comparing Indonesian performance in maintaining price stability and expansion of international trade.	The reports were used as background material for regular quarterly meetings of the Board of Governors of BI and were useful in setting parameters for annual inflation targets and growth.
William E. James	BI/IBRA/MOF	Promote financial system stability and reform in order to restore investment and economic growth.	Successful seminar was held on the issue of deposit insurance following preparation of a memo on this topic for the Senior Deputy Governor.	Working with BI, MOF and IBRA as well as helping to coordinate donor activity in development of a financial system safety net.

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Annual Workplan for 2002				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLES	STATUS
William E. James	BI	Work with BI officials, ELIPS, MOF and US embassy staff on issues involved in freeze of assets of groups involved in terrorism and money laundering issues.	Establishment of Financial Intelligence Unit (PPATK) work to coordinate donor and GOI efforts to combat money-laundering and terrorist-related finance.	Following a series of meetings and discussions among the concerned parties PPATK was established and has been active in working to combat money-laundering and terrorist finance.
		STATUS OF PEG CONTRACT DELIVERABLES FOR JULY 2002-JUNE 2003 PERIOD:		
William E. James	BI	Research and Analysis and Education on Inflation and Monetary Policy, Productivity in the Real Economy, Capital Formation and Inflation	<p><i>Recurring regular analyses and training provided informally to Bank Indonesia staff.</i></p> <p>Three technical reports will be prepared.</p>	<p>This is being accomplished. On a regular basis I work with counterparts to upgrade and improve reports, the BI website on investment, and, most recently with the Financial Stability Team to improve the <b><i>Blueprint for Financial System Stability</i></b> (under Pak Muliaman Hadad and Pak Anwar Nasution). In addition, I have assisted the Senior Deputy Governor in preparing research and technical reports on monetary policy and for the Deputy Governor on reform of the international financial architecture. There will be an on-going need to continue this work, although not having access to short-term expertise makes this more difficult. Despite this, the deliverable has been fulfilled.</p> <p>This deliverable has already been satisfied with following:</p> <ol style="list-style-type: none"> <li>1. "The Debt Trap and Monetary-Fiscal Policy in Indonesia: The Gathering Storm?", a Technical Report prepared jointly with Anwar Nasution was presented at the 8<sup>th</sup> Convention of the East Asian Economic Association in Kuala Lumpur, November 4-5, 2002 and a shorter</li> </ol>

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Annual Workplan for 2002				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLES	STATUS
				<p>version has been published by the Indonesian Institute of Sciences, <i>Jurnal Ekonomi dan Pembangunan</i>, Vol. X, (1), 2002:1-22.</p> <p>2. "Inflation and Deflation Watch in the East Asian Region: Report for the Third Quarter of 2002," technical report prepared for the Directorate on Economic and Monetary Policy Research, December 2002.</p> <p>3. "The Turnaround in East Asian Trade: Evidence from the Third Quarter of 2002," technical report prepared for the regular quarterly meeting of the Board of Governors of BI, December 2002.</p> <p>4. "Indonesia's Textile and Apparel Industry: Meeting the Challenges of a Changing International Trade Environment," Technical Report prepared with David Ray and Pete Minor of PEG/MOIT. This technical report has been revised and will appear in the April 2003 issue of <i>The Bulletin of Indonesian Economic Studies</i>.</p>
William E. James	BI	Coordination of Short-Term Technical Assistance and Development of a Regular Research Seminar Program on the Financial System Safety Net	Seminar notes will be collected for dissemination.	This part of the Scope of Work has been modified to reflect the work I have been doing on financial system stability and counter-terrorist finance and anti-money laundering in collaboration with Bearing Point, PEG/MOF, IMF, ADB, World Bank, FSVC and AusAid. Indeed a seminar series has been launched with two seminars held on the topic of the

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Annual Workplan for 2002				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLES	STATUS
				blanket guarantee and deposit insurance and on financial stability. Notes prepared by the speakers have been disseminated. This activity is on-going and it is expected that this deliverable will be achieved. The revised and improved <b><i>Blueprint for Financial System Stability</i></b> is a bonus deliverable that will be accomplished over the next few months remaining in the SOW.

## Partnership for Economic Growth (PEG)

**PEG Project Annual Results Matrix: Reporting Period January 1 to December 31, 2002**  
Progress & Achievements Against Workplan during Reporting Period

Status of Activities and Deliverables in Agreed-Upon Annual Workplan dated January 1, 2002 – December 31, 2002				
Advisor	Counterpart	Workplan Activity	Related Deliverable(s)	Status and Comments
T. Timberg	Bank of Indonesia (BI) Credit Bureau	In House Courses on SME Finance Research Methodology, Rural Finance, and SME Policy		At request of client changed to course in Australia at Monash University, which is developing a budget and schedule. Also held seminar on Palm Oil Finance.
		Socialization Seminars with Regional Banks and Publics to Promote SMME Lending		These have been done in Eastern India. But the funding has entirely come from Bank Indonesia
		Research on Factors Influencing SMME Lending		Research Study completed and under review.
			National Seminar summarizing results of work.	To be held if evacuation permits
			Three Policy Memoranda	"Appropriate Macropolicy for SME," Thomas A. Timberg, Spring 2002. Policy Memo)  Comments on Speech by Rudjito to USAID Retreat, Spring 2002 (Policy Memo)  Memo to Ms. Yunus Sari on Debt Restructuring, Thomas A. Timberg (Policy Memo)  Expanding SME Credit In Indonesia, Thomas A. Timberg (Policy Memo)  Memo on Millennium Challenge Account (Policy Memo)
			Five Seminar Notulen	1. Microfinance workshop, World Bank, Jakarta, February 11-12, 2002 --Notulen in file.

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Agreed-Upon Annual Workplan dated January 1, 2002 – December 31, 2002				
Advisor	Counterpart	Workplan Activity	Related Deliverable(s)	Status and Comments
				<p>2. The 5th Network Meeting Ukabima,Bandung, February 18-21,2002, no notulen in file.</p> <p>3. BMT Supervision Jakarta, March 13, 2002 Notulen in file.</p> <p>4. Saving and Loan Supervision, Jakarta, March 18, 2002 Notulen in file.</p> <p>5. Potential Investor for BPR, Makassar, August 30,2002. Notulen not yet in file.</p> <p>6. Saving and Loan Supervision II , Jakarta, September 30,2002. Notulen in file.</p> <p>7. Seminars on S&amp;L Cooperatives in region (Lampung &amp; Manado). No Notulen.</p> <p>8. Credit Bureau Seminar on SME Lending. No Notulen in file.</p>
			Five Seminar Presentations	<p>a. National Seminar on Savings and Loan Cooperatives posted on the Pegasus website.</p> <p>b. Seminar on SME Finance by Jakarta Branch of the Ikatan Sarjana Ekonomi Indonesia which is included in one version on the Pegasus website and under another awaiting publication.</p> <p>c. Other seminar presentations are awaiting return from ordered evacuation.</p>
			Three formal pieces of legislation or administrative initiative.	<p>1. Draft Microfinance Institutions law</p> <p>2. Draft Ministerial Decree on Credit Information bureau</p> <p>3. Regulations on new BPR licensing.</p>
T. Timberg	BI, DBPR	Research on BPR Best Practices		Study completed draft report not yet in.

## Partnership for Economic Growth (PEG)

<b>Status of Activities and Deliverables in Agreed-Upon Annual Workplan dated January 1, 2002 – December 31, 2002</b>				
<b>Advisor</b>	<b>Counterpart</b>	<b>Workplan Activity</b>	<b>Related Deliverable(s)</b>	<b>Status and Comments</b>
		Research, advice, and support for dialogue on regulation of non-bank financial institutions, the licensing and promotion of new BPR, improved BPR information systems, and the linkages of BPR with more general financial markets (especially through the creation of a rating bureau).		Continuing dialogue. Pilot rating completed and plans underway for national rating agency. New BPR licensing proceeding.
T. Timberg	BI, other	Coordination of the Short Term Advisory work on HRD/Training for bank supervision.		Completed. Australians ready to fund our man in follow on project.
		Assistance to the Directorate for Licensing and Information on the proposed credit information bureau and other issues.		Issue is in suspended animation. Including, as far as I know the Asian Development Bank project with a unit devoted to that issue.
		Assistance to the Transition Team on the development of Bank Indonesia's Regional Offices.		Continuing dialogue
		Assistance to the Shariah Banking Bureau	Scheduled visit by Prof Richard Meyer of Ohio State University, National Seminar on Comparative Bank Supervision, possible linkage with IMF Shariah supervision efforts	Two scheduled activities, contingent on end of evacuation.
	MennegKop (State Ministry for SME and Cooperatives)	Research on the regulation and promotion of savings and loan cooperatives and the impact on them of regional autonomy.		Research Completed. Pilot Implementation Project Underway.
		Research on subcontracting/partnership between SMME and large industry as a means for their promotion.		Study finished. National Seminar scheduled.

## Partnership for Economic Growth (PEG)

### PEG Project Annual Results Matrix

Progress & Achievements against Workplan during Reporting Period, January 1 to December 31, 2002

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for July 9, 2001 – December 31, 2001				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Idris Sulaiman	Inter-ministerial Indonesian ICT Coordinating Team (IICT/ <i>TKTI</i> ), State Ministry of Communications and Information (MoCI / <i>Meneg Kominfo</i> ) and ICT industry organizations (MASTEL, I2BC and FIIT)	<b>Coordinator of ICT-related Events: To organize and arrange workshops, conferences or other special events on behalf of USAID and implemented by PEG as requested.</b>	Participate on the USAID ICT Mission team and ICT Working group and organize important ICT events	Completed:  * Provided lectures and talks on ICT policy to government and industry representatives.  * Arranged the funding application, assisted planning and execution of two seminars (on VoIP and on wireless solutions) by the ISP association as part of the ICT industry efforts to bridge the digital divide.  * Provided briefing sessions and information about the Indonesian ICT and macroeconomic conditions to US companies and other organizations through, for example, the US Commercial Office, Rotary Club and AmCham meetings as well as through PEG website as its webmaster
		<b>USAID ICT Working Group: Advise and assist the group and on development of USAID Strategy for ICT Development in Indonesia.</b>	Design and prepare a strategy for follow up for the ICT action plan in accordance with USAID ICT Mission team priorities, and seek opportunities to encourage the GOI to implement that strategy	Completed:  * Performed the role as discussion group leader and made a presentation of the strategy to the retreat participants on “Access to Information Content Development & to Information Infrastructure Provision as key tools to bridge the Digital Divide in Indonesia” at the USAID-ECG Retreat.  * Provided input to the development of ICT policy through USAID ICT Working Group led by Economic Growth Team Leader. Supported his work with the World Bank Private Sector Coordinator, Mr. Bernard Drum, who has played a critical role as coordinator of joint activities with other donor agencies in the Donor ICT Group on Indonesia



## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Agreed-Up Upon Annual Workplan for July 9, 2001 – December 31, 2001				
				<ul style="list-style-type: none"> <li>* As requested by the Deputy Leader of the Economic Growth Team, Dr. Sulaiman worked on ICT/cyber-security and cybercrime issues as part of business and investment facilitation in implementing the ICT Action Plan.</li> <li>* Attended USAID Asia &amp; Near East Bureau Regional ICT Coordinators Workshop, Jordan, and relayed key recommendations from the Workshop to USAID/Indonesia and its ICT Working Group</li> </ul>
		<p><b>Further development of Indonesian ICT Action Plan: Advise and assist MoCI in fulfilling its responsibilities as the GOI's advisory and monitoring agency for the development and implementation of the ICT Action Plan.</b></p> <p><b>Development of Community Tele-Center (CTCs) and Multi-purpose Tele-Centers (MTCs): Development of Telecenters in Indonesia</b></p>	<p>Design and prepare a strategy for review of the ICT action plan in accordance with USAID ICT Mission team priorities, and seek opportunities to encourage the GOI to implement that strategy.</p> <p>Advise and assist the MoCI/IICT and industry association representatives in fulfilling its responsibilities as the GOI's body for the development of Phone and Internet Kiosks (Wartels, Warnets) and Community Telecenters in Indonesia. Work with the relevant other GoI agencies and the private sector on these issues.</p>	<p>Completed:</p> <ul style="list-style-type: none"> <li>* Based on material from the USAID-ECG Retreat and input from USAID Jordan conferences, organized the meeting of the Donor ICT Group on Indonesia on the ICT Action Plan and maintain the discussions of the ICT Action Plan in e-government programs and other discussions at the MoCI and other agencies, with the representatives of industry organizations and other donors.</li> </ul> <p>Completed:</p> <ul style="list-style-type: none"> <li>* Organized and provided presentations at events on "Voice over Internet Protocol (VoIP)" and "Wireless Solutions" which are essential applications for CTCs/MTCs.</li> <li>* Disseminated information from international and national conferences on 'best practice' MTC development models.</li> <li>* Completed the translation of the US National Telephone Cooperative Association (NTCA) publication on the "Lessons for the Private Sector's Participation in MTC development."</li> </ul>

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for July 9, 2001 – December 31, 2001				
		<b>Development of MoCI/IICT-TKTI's policy to create a conducive investment climate in ICT</b>	Advise and assist the TKTI in fulfilling its responsibilities as the GOI's body for the development of FDI in ICT (through securing cyberspace and by improving on ICT security policies and ICT security capacity building in its organization) and coordinate with ICT-related US companies in FDI related issues.	<p>Completed:</p> <ul style="list-style-type: none"> <li>* Disseminated information from international conferences on countering cybercrime, ICT security/CERT issues and strategic CIP policy formulation to business leaders, MoCI and other agency officials.</li> <li>* Led and organized the establishment of the first (private-sector driven) Indonesian cybersecurity taskforce and forum</li> <li>* Made the case for a greater focus on cybercrime issues at MoCI, for the establishment of the Indonesian national critical infrastructure protection coordinating team and for the development of the Indonesia's Cybersecurity Strategy (or "Roadmap").</li> <li>* Organized for significant input (Cybercrime Provisions) to the Draft Law on Information, Communications and Electronic Transactions (RUU-IKTE) which will be passed through Parliament in 2003.</li> <li>* Conducted liaison activities and provided translations of the request list for cybercrime forensic equipment made by IT and Cyber Crime Unit of National Police to the Department of Justice representative at the US Embassy.</li> </ul>
		<b>Development of MoCI's Policy on SME Development through Efficiency Improvements in the use ICTs in Indonesia</b>	Design and prepare a consensus strategy for USAID ICT usage by SMEs. Seek acceptance in implementing this strategy from the GOI in collaboration with other USAID SME activities.	<p>Completed:</p> <ul style="list-style-type: none"> <li>* Disseminated information from international conferences on ICT use in SMEs as part of the national competitive advantage issues and strategic national policy formulation.</li> <li>* Provided idea input to UNDP ICT for Development Program and encouraged ties with Global Trade</li> </ul>

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Agreed-Upon Annual Workplan for July 9, 2001 – December 31, 2001				
			Design and prepare a consensus strategy for ICT development in West Java consistent with the USAID West Java working group.	<p>Network (USAID-IESC supported program).</p> <p>* Participated in the USAID-ECG "Open Access/SME" focus group with the other USAID partners and supported several major events on "ICT use for SME Business Development" organized by Asia Foundation in several regional cities particularly in West Java. USAID-ECG Retreat ICT Strategy has been presented to the USAID West Java working group.</p>
		<b>Ad hoc requests</b>	Respond to short-run USAID/PEG, IICT and MoCI and USAID/PEG requests	<p>* Planned and organized the ICT Bali Recovery Program (with PT Rajacraft.com as e-comm portal developer) for SMEs in Arts and Handicrafts.</p> <p>* rovided names for invitation lists and attend to speak at workshops, conferences or other special events (eGovernment, Sisfonas, eASEAN and cybersecurity) as requested by MoCI.</p> <p>* Continued attending and provided information support to the USAID-ECG 'West Java' focus group meetings as requested.</p> <p>* As part of the MTC handbook launch, organized the sponsorship of a researcher to attend the Pacific Telecommunications Council (PTC) Conference in Honolulu, Hawaii, January 2003.</p> <p>* Provided information, interviewed candidates and led initial discussions toward proposals for PEG's In-Kind Grants for a seminar, product showcase, workshop on IT and network security organized by the Association of ISPs (APJII), a seminar on legal workshop on cybercrime, telecenter development seminar and workshop and a seminar on accounting standards for telephone/cellular companies for the Assoc for Cell Telephone Operators (ATSI).</p>

## Partnership for Economic Growth (PEG)

### PEG Project Annual Results Matrix

Progress & Achievements Against Workplan during Reporting Period

Status of Activities and Deliverables in Annual Workplan for 2002				
ADVISOR	COUNTERPART	ACTIVITY	DELIVERABLE	STATUS
Povolny	BAPPENAS, MOIT, Bank Indonesia	Manage Partnership Grants; Review work plans, monitor progress toward results and administer all grants awarded by PEG and active during the reporting period.	Quarterly performance monitoring and financial reports are submitted and reviewed. Requests for advance/reimbursements are reviewed and processed. Grantee requests for assistance are addressed in a timely manner. Grantee activities are monitored for adherence to annual plans.	<p>During the period October 1, 2001 – September 30 2002 PEG supported directly five grants: IRIS/LPEM (finished August 31, 2002), Georgetown-PBC (finished January 15, 2003), University of Bandung/University of Southern California (finished March 31, 2002), CSIS/Columbia University (finished April 30, 2002). A sixth grant to the Asia Foundation was completed August 31, 2001. Reports from individual grantees are available in the PEG Project quarterly reports.</p> <p>In general, the PEG Grants program was highly successful with all grantees fulfilling their grant objectives. It is also clear that the Indonesian partners have been strengthened, their profiles as providers of competent analysis used for economic decision making has been enhanced and they are recognized for their competence. The relationships have been built and sustained and provide an excellent base from which to promote the growth of Indonesia's economy based on open trade, investment and domestic economic competition.</p>
	BAPPENAS, MOIT, Bank Indonesia	Assist USAID Regarding grants awarded by USAUD/ECG; Actively assist USAID in the determination of grant worthiness of potential USAID cooperative agreements; assist in the monitoring of USAID/ECG	Make recommendations to ECG for funding grant applications. Review work plans. Prepare award documentation. Quarterly performance monitoring reports are submitted and reviewed.	PEG prepared the award documentation for and administered four grants for USAID that were awarded in early 2002: Opportunity International, RAND, CARE Indonesia, Rural Development Institute (RDI), and four other cooperative agreements: the Asia Foundation, Siaga/ UGM, IRIS and U.San Francisco/CCLE. These cooperative agreements were awarded directly by USAID. PEG has ensured that the performance reports have been received and has provided support and recommendations as required. The reports from

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Annual Workplan for 2002				
		awarded cooperative agreements		individual grantees are available in the PEG Project quarterly reports.
		Audits: Implement audit requirements for grants awarded under the contract.	PEG grantees have respected the audit requirements of their grants.	This activity affects only PEG Grantees. All PEG Grantees' grants are audited as part of the grantees' annual institutional audits and therefore special audits that specifically address the individual PEG Grants are not required.
	BAPPENAS, MOIT, Bank Indonesia	In-Kind support for NGOs, Civil Society Organizations, and Research Institutions;	<p>Support will be provided to at least 20 small in kind activities. All existing grants, both as issued by the Nathan-Checchi consortium and by the USAID ECG team, administered consistently with USAID standards. For the latter grants, grants manager will provide needed quality control. In addition, the Grants Manager shall provide similar support to the in-kind payments program.</p> <p>Concentrating the PEG Direct Payments Program (DPP) on the West Java Development Strategy is intended to provide assistance to at least two of the three target communities, Bekasi, Tasikmalaya, and Garut to expand their development objectives more towards regional development. In order to do this, the goals of the DPP/West Java Program are as follows:</p> <ul style="list-style-type: none"> <li>At least two of the three selected kabupatens in West Java will have successfully used the support to address the issues of providing more productive employment opportunities by resolving constraints to economic development that are addressed by the ECG's 4 Intermediate Results.</li> <li>At least two of the three kabupatens will have identified appropriate partners and stake holders</li> </ul>	<p>This program has been highly successful, with 19 small grants awarded and completed during the calendar year. A major emphasis of the small grants program has been the West Java Development Strategy that has leveraged the various programs and activities of the Mission, as well as those of other donors and stakeholders with an interest in West Java. Such leveraging was already implemented in the small grants program and has been continued under the West Java focus program. During the fiscal year direct payment awards have seen an increase of cost share born by the grantee rise from 25% (usually in-kind) to 45 - 50%, and includes the participation of private, NGO and other aid agency partners. For example, this was the case for the APJII (Association of Indonesian Internet Providers) seminars on ICT issues VOIP (voice over Internet protocol), Wireless IT Network Development and the Warung Informasi Teknologi (WARINTEK) Program held by the Ministry of State for Research and Technology –Deputy Minister For Utilization and Socialization Science and Technology (KRT).</p> <p><u>Note for the Ordered Departure:</u> In spite of the ordered departure 8 Small Grants were approved at the start of the 2002-2003 fiscal year and are nearing completion. A review of 21 applications after the ordered departure yielded 13 for potential funding and the work plans and budgets of those are being finalized. As of this writing 6 have been finalized</p>

## Partnership for Economic Growth (PEG)

Status of Activities and Deliverables in Annual Workplan for 2002				
			<p>who can provide services and advice. The partners and stakeholders will be local, regional and national. The partners participation constitutes significant leveraging of SGP resources.</p> <ul style="list-style-type: none"> <li>At least two of the three kabupatens will each implement up to 5 support activities under the ECG IRs.</li> </ul>	<p>and awarded. A second review of small grants was programmed during the current PEG extension, but due to the ordered departure it has not been scheduled. Nevertheless we have received 10 applications, including one with potential from Aceh and others from West Java for Bekasi, Garut and Tasikmalaya.</p> <p>Given that our goal was 20 approved and implemented applications, we were well within range when the evacuation order came, and may still be able to achieve it if the small grants are carried forward into a PEG extension. All other deliverables for the current PEG contract regarding this Activity have been achieved. This includes awarding Small Grants in two of three West Java kabupatens: all three target kabupatens have received more than one small grant; small grants have addressed the issues of providing more productive employment opportunities and resolving constraints to economic development; small grants have paired stakeholders with appropriate partners who are providing services and professional advice; small grants resources continue to be well leveraged.</p>
	Other	Other Administrative Tasks as assigned by the COP. Includes organizing and carrying out general conferences/workshops and related activities.	<ul style="list-style-type: none"> <li>Organize at least three major workshops and or conferences for the PEG component of the overall ECG team.</li> </ul>	<p>During the 2002 calendar year a major conference and workshop on the Economics of Terrorism was held on May 7 and 8 at the Shangri-La Hotel in Jakarta. Proceedings are available on the Development Experience Clearinghouse website: <a href="http://www.dec.org">www.dec.org</a>. Organization of more major conferences and workshops has been hampered by the Ordered Departure, although 8 smaller conferences and workshops have been held as part of the Small Grants Program, in collaboration with PEG TA.</p>

# PEG TA TEAM

## INDIVIDUAL ANNUAL PROGRESS REPORTS

### CONTENTS

<u>Advisor</u>	<u>Page</u>
Macro/Policy Finance/Banking Advisor at Coordinating Ministry/Finance /Bappenas—William Wallace & Peter McCawley	85 - 91
Technical Assistance on Macroeconomic Policies in the Coordinating Ministry for Economic Affairs—Timothy Buehrer	92 - 94
Macroeconomic Advisor at Bappenas—Kelly Bird	95 - 98
Labor Advisor at Bappenas—Chris Manning	99 - 102
Real Sector Advisor at Bappenas—Stephen V. Marks	103 - 104
International Trade Specialist, Ministry of Industry and Trade —Steve Magiera	105 - 110
Domestic Trade Advisor, Ministry of Industry and Trade—David J. Alan Ray	111 - 119
Resident Advisor on Monetary and Exchange Rate Policy and Research, Bank Indonesia—William “Ted” James	120 - 126
Small Scale Adviser, Bank Indonesia and Other Institutions —Thomas A. Timberg	127 - 134
Expert on Assistance to Information, Communications and Technology Activities (ICT), including the Ministry of Communications and Information —Idris Sulaiman	135 - 144
Grants Advisor/Project Administrator—Jeffrey J. Povolny	145 - 147

# Partnership for Economic Growth (PEG)

## Individual Annual Progress Report

*Dr. William Wallace,*

*Reporting Period: 2002*

*Macro/Policy Advisor at Coordinating Ministry/Finance/Bappenas*

*BAPPENAS (JANUARY 2002- JULY 2002)*

Since January 1999 the consultant's primary task at Bappenas was to improve the macroeconomic analysis and policy proposals for use in the National Development Plan (Propenas) and the annual policy action plans (Repeta). The priorities and action plans developed are necessarily extensive and the advisor assisted Bappenas staff in assessing and analyzing policy across a broad set of areas. This has involved working with and coordinating Bappenas staff research and model development, short-term consultants under PEG for the planning agency, other PEG/Bappenas advisors, other consultants under PEG and ECG, and other multilateral and bilateral consultant efforts.

There is room for improvement but these development programs at Bappenas represent a conceptual breakthrough from the central planning of the past. Over time they are continuing to sharpen the focus on national priorities and in particular at identifying and separating central and regional government obligations. There are initial steps toward a multi-year budget framework. They are being developed with more input from stakeholders and better coordination within the government. Finally, these programs generally reflect a better understanding of economic efficiency and fiscal sustainability.

The binding commitments to budget deficit targets, and asset recoveries for budget finance in the Propenas have been the key policy anchors since the crisis. Last year's key accomplishment was the introduction of explicit national priorities in the Repeta. These were modified and accepted by both the Cabinet and the Parliament and passed into law. Attaching improved and more explicit action plans to these priorities is the objective for 2003.

Key consultant accomplishments at The Planning Ministry:

- Adding explicit priorities to the Repeta, while maintaining existing progress on the medium term macro/budget framework<sup>1</sup> and an issue (as opposed to sector) focus.
- Continued production of Bappenas White Papers and monthly macroeconomic reports to the cabinet. These provide the understanding and ideas for the Repeta (Kelly Bird is currently largely responsible for assistance in this area)<sup>2</sup>
- Assistance on minimum wage/labor issue analysis (primarily in the work plans of Chris Manning/Kelly Bird)
- Increasing the understanding of tax issues as the basis of future tax reform regional/sustainability/excise (initially in my work plan, second half of 2002 in work plan of Stephen Marks)

---

<sup>1</sup> This work on the Repeta at Bappenas complements the World Bank's efforts to introduce a Medium Term Expenditure Framework (MTEF) to improve national budgeting.

<sup>2</sup> Bappenas white papers on macro and policy issues are the means to explore policy issues for use in the Propenas and Repeta.



## Partnership for Economic Growth (PEG)

### *COORDINATING MINISTRY/FINANCE (AUGUST 2002-DECEMBER 2002)*

In the second half of 2002 the consultant was transferred to the PEG position at the Coordinating Ministry/Ministry of Finance. [To replace Tim Buehrer.] However, the consultant was to remain involved in and work with staff and consultants at the Planning Ministry. With some modifications Dr. Wallace picked up and extended Tim Buehrer's SOW which focused on three areas:

1. *Identify and analyze key economic policies affecting the recovery of the Indonesian Economy*
2. *Improve the capability of the office of the Coordinating Minister to track the performance of the Indonesian economy and anticipate policy issues.*
3. *Respond to requests from the Office of the Coordinating Minister for Economic Affairs and the Ministry of Finance as required.*

A number of key economic policies and trends were analyzed by the consultant in 2002;

#### *Key economic policies*

- Budget financing for 2004 and beyond was identified and the consultant worked with Lex Rieffel on this (see below).
- Issues in the architecture of the Indonesian Financial Sector were identified and the consultant worked with Lloyd Kenward on this (see below).
- Domestic financing, re-profiling bonds, the Sovereign debt law, and the agreement with Bank Indonesia on the government's debt position were also important work areas (the consultant worked with George Gianaris the USAID/Treasury consultant at Finance on this).
- Tax reform and fiscal policy (Stephen Marks Peg/Bappenas, Doug Todd Fiscal Policy/Finance)
  - i. This was flagged for a full reform by 2005. But background work including international comparisons, excise taxes, luxury taxes and others was begun and should continue.
- At the request of the Government of Indonesia and USAID consequences of the Bali Bombing were investigated
  - i. Analysis was done on the consequence for the macroeconomy and budget.
  - ii. Analysis was done for a recovery strategy
    - Proposals for follow up by USAID grant funds were suggested, and adopted.
    - Proposals for follow up by the GOI on income support were suggested and are being worked out (this has been taken on by Kelly Bird as a Bappenas initiative).
- The consequences of a war in Iraq for the global economy and the impacts on Indonesia was done.
- Trade policy (see below)
- Significant areas of coordination and joint work not otherwise listed—with other PEG members, other USAID consultants and other donors in the following areas (some of these were only begun in 2002, and are more significant in 2003):

## Partnership for Economic Growth (PEG)

- i. Minimum wages and Labor laws (Chris Manning and Kelly Bird from PEG/Bappenas)
- ii. A seminar highlighting the work of young Indonesian Economists (with the World Bank)
- iii. The investment climate (Kelly Bird Peg/Bappenas)
- iv. The financing of terrorism and the establishment of the FATF (with Ted James PEG/BI and James Agee ELIPS)
- v. Deposit insurance (With Bob Dodge IBRA, Ted James PEG/BI and others)
- vi. Reform of the Inspector General office at the Ministry of Finance (with FSVC)
- vii. Interim Poverty Reduction Strategy (with PEG consultant Gus Papanek and the World Bank).

### *Capability at the Coordinating Ministry*

- This has not advanced rapidly due to time constraints and limits on short-term consultancies. However, some progress accompanied Peter McCawley's consultancy, and hopefully that will continue with the support of the economic section at the Embassy (see below).

### *Respond to demands from the Coordinating Ministry and Finance*

- Two sorts of demands are usually involved, assistance on policy issues (either identified by the consultant or by the counterpart), and assistance on economic diplomacy
  - i. The first of these is covered under the economic policy discussion above
  - ii. The second continues to involve assistance to staff on presentation and speeches, but now there is a second component aimed at improving the capability of the Indonesian government in this area. This is follow-on is largely built around Peter McCawley's consultancy, with follow up from the Embassy econ section (see below).

### **Explicit deliverables identified the extension SOW were as follows:**

- *A study on budget issues on the overlap between regional and central government budgets in major sectors or an equivalent study, with recommendations on how to improve this problem in time for the budget in FY 2004 (i.e. the Repeta next year).*
- *Assist Bappenas to complete another White Paper at the end of 2002, and continue assistance to the Repeta process (the near-term focus will be on Repeta 2003, with a later change to background and issues for Repeta 2004) to tighten national priorities and action plans to achieve them,*
- *Under the guidance of the COP, consultant will provide leadership to the organization of the PEG team response on trade issues for the Minister of Finance.*

These deliverables were developed when USAID/ECG believed there would be another full time consultant at the Coordinating Ministry/Finance for the remainder of 2002 and through June 30, 2003. During contract modification negotiations one long-term position was dropped and the number of LOE person months reduced. Thus it has not been possible to

## Partnership for Economic Growth (PEG)

accomplish all deliverables in the 5<sup>th</sup> year SOW, and the first one mentioned above has not been completed.

- Budgeting – this study has not been accomplished. However, some elements have been completed. A memo on regional budgets that examines the totality of regional development spending (budgeted) was completed and analysis done in December. The Bappenas Monetary Fiscal Directorate completed a study on regional decentralization issues in November with input from the PEG team. This study concentrated on intergovernmental fiscal relations, generally on the revenue side, however there is relatively little on central government development budget priorities and regional overlaps. Given the press of demands and the lack of time remaining on the PEG project this deliverable may not be achieved. Another brief review is planned for the fiscal policy panels being planned at the Fiscal Analysis Agency in early 2003.
- Process reforms at Bappenas – these have been achieved
  - The third straight Planning Ministry White Paper providing an overview of the macro situation and the policy reforms was completed in December and distributed at the CGI in January (and quoted in the most recent BIES on the Indonesian economy). Given the change in job to the Coordinating Ministry/Finance and increased demands the major part of the assistance provided this year was done by Kelly Bird at PEG/Bappenas.
  - The planning for the Repeta for 2004 is ongoing. Among other things, Stephen Marks of PEG/Bappenas is working on issues in tax reform, William James is developing input for financial sector policy. The World Bank is working on Mainstreaming Poverty, to advance last year's priority.
- Trade and excise policy remained an important element in the consultant's workplan and this has been achieved.
  - Policy areas examined last year included wheat flour, rice, cigarette excise, the Batam Free Trade Zone, other bonded zone issues and the organization of trade policy under Team Tariff.
  - These issues continue to be important in 2003 and the consultant will continue to coordinate PEG and other donor efforts in this effort.

### Key accomplishments

- Input to the reestablishment of Team Tariff
- Input to the reduction/elimination of luxury taxes
- Assistance on resisting trade and production distorting proposals especially in wheat and rice
- An improved overview on the government budget position and financing capacity post 2003
- Input to the current effort to reorganize the Ministry of Finance based on the requirements of economic diplomacy.

## Partnership for Economic Growth (PEG)

### **Finance/Banking Advisor at the Coordinating Ministry for the Economy/Ministry of Finance (Various Short-term)**

To support the work here USAID/ECG agreed to provide a second key position at the Coordinating Ministry/Ministry of Finance office. The SOW for this position (through June 30, 2003) indicated that this consultancy would be focused on:

1. Financial sector architecture,
2. Donor support,
3. Private sector capital flows

The following deliverables were identified:

- *An initial significant study (or more) of the banking system or an equivalent activity as judged by the CTO.*
- *An assessment of how to organize better information between the Indonesian government and the foreign private sector or an equivalent activity as judged by the CTO. Consultant will prepare a report, make recommendations, and follow up.*
- *A coherent assessment of a Paris Club exit strategy that addresses Indonesia's perceived needs in the context of the international financial community's views or an equivalent activity as judged by the CTO.*
- *Other policy issues and support as they arise through requests from the GOI and as evaluated by the advisor.*

The PEG project had identified a consultant for the final year of the project to fill this position but did not reach agreement with USAID/ECG. By the time another consultant was found, agreed on, and availability ascertained less than a year left in the PEG project. The compromise agreed on as part of the extension documentation was for PEG to fulfill the SOW deliverables with short-term consultancies.

- The Financial Sector – Lloyd Kenward issued a report on the banking system and capital markets “Kemana Indonesia’s Financial Sector”, July 2002. Issues identified are being followed up under USAID’s project at IBRA, the Asian Development Bank and the IMF among others. The consultant continues to spend time working with others dealing with these issues.
- International Economic Diplomacy – In a discussion of our workplan with the Minister of Finance the second deliverable was adjusted to focus specifically on economic diplomacy and a report was issued on this by Peter McCawley and William Wallace “Indonesia’s International Economic Diplomacy”, December 2002. This effort is being followed up with the assistance of the Economic Section of the US embassy.
- Paris Club exit strategy and private financing – Lex Rieffel report “External Financing for Indonesia Post 2003”, in October follows up on this deliverable. This was presented to a technical team and senior officials at the Coordinating Ministry, Ministry of Finance, Bappenas, and Bank Indonesia. These individuals are now part of the “Graduation Strategy Team”.

## Partnership for Economic Growth (PEG)

### Key Accomplishments

Despite the use of short-term consultants instead of a long-term consultant all of the SOW areas have advanced reasonably successfully. Either the PEG project or others continue major efforts in each of these areas. For example, the Financial Sector work is being followed up by William James, the PEG consultant at Bank Indonesia, and other donors. However, each of these consultancies has already made an effective contribution to improved policy making in their own right.

- The IMF and the development banks have indicated that Lloyd Kenward's overview piece on the Financial sector has been very useful for those working to establish the new Financial Sector Architecture, Deposit Insurance and the Financial Sector Authority, among other things.
- Lex Rieffel's contribution on the issues behind Paris Club, multilateral financing and foreign commercial financing has been a key input current thinking on the graduation strategy, and he has been invited back to deepen our understanding.
- Peter McCawley's consultancy was presented to the Minister and the Secretary General of the Ministry of Finance. The minister indicated that it should be used as input to those responsible for the Ministry of Finance reorganization. It has also led to a great deal of demand at the Coordinating and Finance Ministries for follow-up.

### Work plan for 2003

There will only be one PEG position at the Coordinating Ministry/Finance for the remainder of the PEG project. The consultant has been requested to assist the new Chairman of the Fiscal Analysis Agency (BAF) at the Ministry of Finance in developing staff and policy in the budget/tax and customs area. He has also been asked to continue his involvement in economic diplomacy at both the Coordinating Ministry and Finance. Finally there remain outstanding requests on specific trade policy areas.

- To assist BAF the consultant will work with Doug Todd from the Fiscal Project. There are two priority areas:
  - Staff development – this will be done through
    - On-the-job training, and
    - A series of panels that include both outside experts and BAF staff.
  - Graduation strategy
    - Lex Rieffel is scheduled to arrive in April to follow up on commercial foreign financing and the Indonesian institutional response needed
    - There is an outstanding request to look at the exchange rate, interest rate and inflationary issues around increased non-concessionary financing – this is currently scheduled in May or June.
- Economic Diplomacy
  - The consultant is working with the staff in a number of areas attempting to implement the suggestions of Peter McCawley
  - Further training is proposed to be done by the Economic section at the Embassy

## Partnership for Economic Growth (PEG)

- William Heidt has given a presentation on the preparations of the US State Department when Colin Powell makes a trip, responsibilities, clearance, feedback etc.
- The consultant is working with the Economic section on a plan for 2 or 3 more presentations to the Ministry of Finance and Coordinating Ministry on US State Department and Treasury Department procedures.

Deliverables should include:

- A report from the BAF panels
- Input to the analysis of Indonesian options for 2004 and beyond
- Two consultant reports
  - Foreign commercial financing
  - The interest rate, exchange rate, inflation nexus
- A report on the outcome of the presentations by the Economic Section at the embassy
- Various Trade policy memos

# Partnership for Economic Growth (PEG)

## Individual Annual Progress Report

*Dr. Timothy S. Buehrer,  
PEG Macroeconomic Advisor  
Office of the Coordinating Minister for Economic Affairs/  
Ministry of Finance*

*Reporting Period : 2002*

As I left the PEG project on 25 July 2002, this annual report only covers work performed during the first half of the year. During this period, I advised a range of government officials, primarily in the Office of the Coordinating Minister for Economic Affairs and in the Ministry of Finance. My work spanned a wide range of macroeconomic issues but became more and more focused on issues relating to debt management and fiscal sustainability as the year progressed.

The text below highlights some of the key issues that I worked on during 2002.

**Workplan Activity 1:** Identify and analyze key macroeconomic policies affecting the recovery of the Indonesian economy and the impact of the recovery on the poor.

### **Accomplishments:**

Fiscal policy analysis became the primary focus of my work as we moved through 2002. This came about because the Ministry of Finance was seeking to develop its own medium term fiscal framework in conjunction with the public expenditure review being completed by the World Bank. I assisted the Ministry in developing the models to be used for the medium term framework and then used those models to examine the government's options for graduating from the IMF program and exiting the Paris Club at the end of 2003. This work was done in close collaboration with the staff of the Ministry of Finance. At the same time, I worked with the staff of the Office of the Coordinating Minister to train them in the approach used in developing the model in order to allow them to build upon it in their work.

Domestic and foreign debt management issues were also quite important in my work in 2002. One key aspect of this work related to the debate over the allocation of "responsibility" for the BLBI losses between the government and Bank Indonesia. I spent a significant portion of my time explaining how this was, at least from a theoretical perspective, a non-issue and that the important point was to ensure that Bank Indonesia had the resources that it needed to be able to maintain its independence in formulating monetary policy.

As noted above, I also spent some time advising the government on issues relating to graduating from the IMF program and exiting the Paris Club. These had been issues that I had been raising for some time, but the advent of the medium term fiscal framework analysis permitted me to be far more concrete in my advice. One success of this line of work is that the government now is seriously examining this

## Partnership for Economic Growth (PEG)

issue; a position that was almost inconceivable by many in government as recently as late last year.

### **Needed Future Efforts:**

The medium term fiscal framework effort needs continued support if it is to yield useful results. In addition, it would be useful to continue the process of training the staff of the Office of the Coordinating Minister in this area. They are interested in the approach and can use it in their work. If the government does decide to seek to graduate from the IMF program by the end of 2003, then significant activity will be required to support the government in developing the programs necessary to continue economic reform and to continue raising revenues and accessing the foreign financing that will be needed to avoid a further Paris Club rescheduling in 2004.

**Workplan Activity 2:** Improve the capability of the Office of the Coordinating Minister to track the performance of the Indonesian economy and anticipate policy issues

### **Accomplishments:**

During 2002 I continued to refine the monthly report that I had been preparing since joining this project in mid-2000. There continues to be demand for this report. In fact, despite my having felt that demand might be flagging over the past year, as I was leaving a number of individuals within the government indicated how important the document was to their work and expressed a desire to see it continued.

Other efforts in this area focused on issues relating to monetary policy, the lessons from the collapse of Argentina, government policy toward debt swaps, and some final work on poverty before this latter activity was transferred to the Coordinating Minister for People's Welfare (Kesra.)

One of the major successes of this year was the fact that the government finally became more active in the area of debt swaps and has sought to qualify for a swap under the US Tropic Forest Conservation Act.

### **Needed Future Efforts:**

It would be useful for some version of the macroeconomic report that I have been preparing to continue as key individuals within the government find it useful. However, it would be best if a way could be found to engage more of the staff of the Coordinating Minister's office in this effort.

**Workplan Activity 3:** Respond to requests from the Office of the Coordinating Minister for Economic Affairs as required.



## Partnership for Economic Growth (PEG)

### **Accomplishments:**

Under this activity, I assisted the Coordinating Minister's Office and the Ministry of Finance in a wide range of areas. For instance, I continued to assist the government in its relationships with the IMF and other multilateral agencies and in making presentations to international audiences. Ad hoc requests continued on topics ranging from foreign trade policy development and implementation to a post mortem on the effectiveness of the early IMF programs during the crisis. This work also included assisting the Ministry of Finance in its efforts to educate the DPR on issues relating to debt management and the revisions to the law on Bank Indonesia.

### **Needed Future Efforts:**

There are always additional requests from our clients for support on a range of issues and these will continue into the future, particularly now that the Ministry of Finance has come to rely more heavily on the PEG project for assistance.

# Partnership for Economic Growth (PEG)

## Individual Annual Progress Report

*Dr. Kelly Bird,  
Macro/Policy Advisor at Bappenas*

*Reporting Period: 2002*

Since January 1999 the consultant's primary task at Bappenas was to improve micro-economic analysis of the real sector and provide suggestions for accelerating recovery in the real sector for use in the National Development Plan (Propenas) and the annual policy action plans (Repeta). The priorities and action plans developed are necessarily extensive and the advisor assisted Bappenas staff in assessing and analyzing policy across a broad set of areas including investment, trade, competition, labor and corporate debt restructuring under the Financial Sector Policy Committee. This has involved working with and coordinating Bappenas staff research and model development, short-term and long term consultants under PEG/Bappenas, and other multilateral and bilateral consultant efforts. In addition, the consultant assisted staff at Bappenas in improving analysis and modeling/projections of macro-economic variables - inflation, exchange rate and monetary policy - for the annual budget.

In the second half of 2002 Dr. William Wallace, the macro policy adviser at Bappenas was transferred to the PEG position at the Coordinating Ministry/Ministry of Finance. While Dr. Wallace remain involved in and continues to work with staff and PEG consultants at the Planning Ministry, some of his previous macro policy tasks at the planning agency have been transferred to this consultant and Dr. Steve Marks, the PEG consultant at Bappenas since July 2002. With some modifications Dr. Bird tasks for 2002 included four broad areas:

- (1) Provide support for Bappenas efforts to improve macroeconomic analysis, projections and reporting especially around the Repeta/Budget process.*
- (2) The advisor will review issues in the banking sector, capital markets and investment as requested by the Minister, and as needed to improve Indonesian understanding of the recovery path for the economy*
- (3) Integrate real sector issues necessary for effective macro-economic management, including marrying investment, trade and labor policies with macro policy. This will require the consultant to work with the labor policy advisor (Dr. Chris Manning) and the real sector advisor (Dr. Steve Marks) at the planning agency.*
- (4) Continue to assist staff with their macro monthly reporting/surveys.*

### **The consultant analyzed a number of key economic policies and trends in 2002**

#### **Key economic policies included:**

**Trade policy** was an important element in the consultant's workplan in 2002. Dr. Wallace, PEG/Coordinating Ministry/Finance, coordinated much of this work on trade policy and customs. Policy areas examined last year included the Batam Free Trade Zone and export policies (especially bonded factories and warehouses, duty drawback facilities) and customs reforms. The consultant also responded to requests from Bappenas to review the draft law on the Batam Free Trade Zone.

## Partnership for Economic Growth (PEG)

### **Continued work on the investment climate:**

- (i) The consultant provided both Bappenas and the Investment Coordinating Board materials for strengthening key provisions of the law in view of improving investor confidence on the investment policy regime.
- (ii) Along with staff from Bappenas carried out a survey of exporters' concerns about policy constraints on their international competitiveness. The Coordinating Ministry requested the consultant to follow-up work on exporters' concerns after Sony's announcement that it intends to relocate audio production to Malaysia
- (iii) The Minister of Finance requested William Wallace and Kelly Bird to provide support for the MoF in its work with the crisis center, in particular to provide a "second opinion" on proposed policies from the center. The two consultants (along with the consultant at Coordinating Ministry Peter McCawley) met with the private sector members of the Crisis Center to discuss taxation issues (luxury tax, VAT and tax implementation issues).

### **Minimum wages and Labor laws** (with labor policy advisor Dr. Chris Manning PEG/Bappenas and Dr. Wallace).

- (i) The consultant assisted the labor policy advisor and this work culminated in a comprehensive report on labor and employment policies in October 2002. This report will be used as input into the Bappenas Whitepaper on Labor Policy in 2003Q1.
- (ii) A series of other studies on labor policy were completed in 2002 as material for the Bappenas whitepaper. This included small grants work on "Governance in Minimum Wage Setting in the Era of Regional Autonomy" by Universitas Parahyangan Bandung.
- (iii) The consultant assisted the PEG/Bappenas labor policy expert (short term from the end of July to end September) to coordinate an inter-departmental team of high level officials to carry out a dialogue with local governments in three key industrial centers over minimum wage policy for 2003.
- (iv) There have been increasing requests from other donors (IMF and World Bank) for input from PEG/Bappenas into their briefing papers on labor and employment issues
- (v) Parliament/MPR has mandated the government establish a social security system for Indonesia. The nature of the system is unclear. In response, Bappenas requested PEG assistance on preliminary work in this area. The consultant coordinated PEG COP Stu Callison to assist Bappenas in producing a briefing paper for the Minister of Planning. Additional work on this area is expected in 2003.

**Bali bombing tragedy.** At the request of the Indonesian government consequences of the Bali Bombing were investigated and various social safety net programs proposed. This effort involved working with a number of other people from USAID funded projects in particular Laurie Pierce (conflict prevention), Raymond Lee (JITF) and Bill Wallace (PEG-MoF), and also with others from other donor (World bank and UNDP).

- (i) With senior officials from the planning agency and Raymond Lee from JITF met with several stakeholders - restaurants, hotels, banks, union, employers groups, exporters and workers (both formal and informal sectors) - in Bali to examine the economic, employment and social impacts of the bombing. This led to a Bappenas memo on the impacts to Ministry of Finance and Ministry of Social Welfare.

## Partnership for Economic Growth (PEG)

- (ii) Provided input to the planning agency and Coordinating Ministry on establishing a Bali response team under the coordinating ministry for the economy. This team was established in December
- (iii) Working with Bappenas, the Bali response team, and the Bali local government to identify institutions and social safety net programs for Bali in anticipation that the economic impacts in Bali will worsen in Q2 of 2003.

**Annual macro report:** Continued to assist Bappenas with their annual macro-economy report, monthly monetary surveys and macro-economic projections on inflation; exchange rate for the budget. This involved working with staff at Bappenas to continue to build up their macro-economic analysis and modeling capacity. The annual macro economy report was circulated in Cabinet and at the CGI in January 2003. The annual macro-economic report is a key document that outlines the Planning Agency's thinking about policy issues for the next year's annual action plan known as REPETA and is linked to the annual budget. The report included an extensive discussion on the investment climate.

### **Explicit deliverables identified the extension SOW were as follows:**

- (i) *Work with Bappenas (memos, training, estimation, model building) to improve monetary, macro and budgetary projections for Repeta 2004, including improved staff capability, (this has an externality for the Ministry of Finance and Bank Indonesia as these three institutions share their forecasts)*
- (ii) *Memos and briefings on developments in the investment law,*
- (iii) *Assistance to the white paper on labor issues,*
- (iv) *A study on the relation of minimum wage increases and poverty or an equivalent study as judged by the CTO.*

### **Deliverables in 2002 included:**

#### **Macro policy and analysis**

- (i) Several memos and training activities were undertaken as part of the consultants tasks in macro-economic modeling and forecasting. Projections on inflation, exchange rate are used as input into the government's 2004 budget. Work on improving modeling of monetary sector continues with staff at Bappenas. Dr. Steve Marks has picked up work on the budget and taxes.
- (ii) The third straight Planning Ministry White Paper to overview the macro situation and the policy reforms was completed in December and distributed at the CGI in January. The consultant has picked up this task from William Wallace now at the Coordinating Ministry/Finance.
- (iii) The planning for the Repeta for 2004 is ongoing.

#### **Trade, labor and investment policies:**

- (i) Several memos were sent to the Planning Agency, the Coordinating Ministry and Ministry of Finance regarding investment climate and the draft law, draft law on the Batam Free Trade Zone, and export policies (including bonded factories and warehouses)
- (ii) The Labor policy expert completed the labor policy report in October 2002. This report will be used as input into the Bappenas Labor Whitepaper in 2003. The Consultant is assisting Bappenas produce this whitepaper.
- (iii) Due to increasing demands for the consultant's assistance to the Indonesian government on identifying income support programs for Bali in the aftermath of the

## Partnership for Economic Growth (PEG)

Bali bombing, the consultant has delayed additional work on the link between minimum wages and poverty to 2003.

### **Key accomplishments in 2002**

- (i) Input to the investment law especially in areas related to providing foreign investors with guarantees of national or equal treatment with domestic investors, proposals for eliminating the 30 year limit on foreign investment and remaining divestment rules; shift towards registration of foreign investment.
- (ii) Input to the reduction/elimination of luxury taxes (with William Wallace)
- (iii) Input into the draft law on the Batam Free Trade Law (with William Wallace)
- (iv) Input into the minimum wage determination process for 2003, which led to wage restraint whereby minimum wage increases took into account the contraction in modern sector employment in 2002, but at the same time compensated workers for inflation (with Chris Manning).

# Partnership for Economic Growth (PEG)

## Individual Quarterly Progress Report

Chris Manning,  
Labor Markets Adviser, PEG-Bappenas

Reporting Period: January 1-December 31 2002

**Workplan Activity 1:**      ***Overall leadership of technical assistance to the Bappenas White Paper “Labor Markets and Employment.”***

**Deliverable One:** Preparation of Materials for the Bappenas White paper on an “employment-friendly” strategy of development.

**Progress:**

Work was carried forward during 2002 resulting in completion of the consultant's draft and final report for the Bappenas White Paper, in close consultation with Bappenas and PEG-Bappenas staff (Kelly Bird and William Wallace). The report for the White Paper drew on a range of interviews, research activities, memos and seminars organized by, or attended by the consultant. The consultant was engaged in several meetings with Coordinating Ministry staff, including a meeting with the Coordinating Minister of Economic Affairs, on developing a new policy approach on minimum wages. He organized and participated in a high-level inter-Ministerial field study and completed a report on developments in the main industrial regions on Java (Jakarta, Bandung and Surabaya) in September 2002.

**Status of Deliverable:**

A first draft of the report was completed in July 2002 and a revised, final draft on the completion of the consultant's term with PEG in late October 2002, in response to comments from Bappenas and the PEG advisor at Bappenas (Kelly Bird).

**Workplan Activity 2:**      ***Policy Advice and Paper on Industrial Relations and Labor Protection Related to New Labor Laws and Policies***

**Deliverable One:** Research reports and supervision of short-term consultancy on industrial relations practice and reform in Indonesia

**Progress:**

The SMERU research team submitted its final report on the industrial relations study which was submitted to Bappenas and is available on the SMERU and PEG websites. Under the consultant's guidance, a short-term consultant, Don Zimmerman submitted his final report on legal aspects of

## Partnership for Economic Growth (PEG)

industrial relations, and this is also available on the PEG website. A chapter on industrial relations and labor protection policies was included in the White Paper.

The consultant also attended and participated in several briefings on the new labor laws with foreign and domestic investors, arranged by AMCHAM, Kadin and the Ministry of Manpower.

### **Status of Deliverable:**

A final report by SMERU and the Don Zimmerman's report on industrial relations, both after several revisions and major inputs from the consultant, were completed and submitted to Bappenas.

### **Workplan Activity 3:**

#### ***Examination of Labor Policy Options, Discussion and Dissemination of Ideas on Labor Policy***

### **Deliverable One:**

Seminar and Papers on Labor Policy

### **Progress:**

The consultant organized a seminar on labor policy on March 27-28, as a basic ingredient for the White Paper on labor policy. Three short-term consultants were invited to the seminar, all international experts in the field (A. Cox-Edwards, J. Pencavel and D. Zimmerman), prepared papers and helped guide vigorous discussion of labor policy issues. Some 40-50 other participants from government bodies (from Bappenas, MOIT, Ministry of Manpower and BPS), trade union organizations and employer groups, universities and research organizations and international aid agencies participated in the seminar. Papers were also presented B. Widiyanto, K. Bird and A. Suryahadi, S. Soemarto and S.K. Rahayu, Tirta Hidayat and A. Uwiyono and by the consultant himself.

### **Status of Deliverable:**

Completed. The labor policy seminar completed and eight papers were presented at the seminar. Several of these papers were placed on the PEG website. The consultant also presented a short paper on minimum wage policy to the DPR Commission 7, organized by IRIS.

### **Deliverable two:**

Input into the government's strategy for employment creation

### **Progress:**

## Partnership for Economic Growth (PEG)

Work was carried out during 2002 to assist Bappenas and the Coordinating Ministry for the Economy to develop a strategy for creation of employment (with Kelly Bird and William Wallace). This work involved several meetings with officials from the two agencies, among others, and several memos outlining a strategy for employment creation. The work is ongoing and is closely related with the work of PEG-Bappenas consultant Kelly Bird and PEG-MoF consultant William Wallace on investment and trade policies.

### **Status of Deliverable:**

Concept paper completed. Follow up work continuing at Bappenas and Perekonomian.

**Deliverable Three:** Support for consultancy work by G. Papanek on employment policy for SMEs in the context of poverty alleviation

### **Progress:**

The consultant assisted Bappenas staff and a short-term consultant (G. Papanek) in organizing a study and undertaking a field survey (in Surabaya) on the role of small-scale industry and other policies in poverty alleviation, and participated in discussions of Papanek's final report on poverty. The consultant provided on-going advice to Bappenas on poverty related policy issues through various discussions and memos throughout 2002.

### **Status of Deliverable:**

Completed.

## **Workplan Activity 4:**

***Improvements to the labor monitoring database at Bappenas to facilitate regular reports on labor issues.***

***Deliverable One:*** Help build up a data base for labor market analysis at Bappenas

### **Progress:**

With cooperation from the Ministry of Manpower, work was continued on putting together a database that can be accessed for policy analysis and planning in Bappenas policy documents.

### **Status of Deliverable:**

Completed.



## Partnership for Economic Growth (PEG)

### Workplan Activity 5

*Participation and support for the organization of workshops on regional development and fiscal policy for regional universities across Indonesia, April-June 2002, in cooperation with IRIS.*

**Deliverable One:** Holding of the workshops in cooperation with host universities in the regions

**Progress:**

Organisation of and participation in four workshops in Makassar, Malang, Palembang and Medan in March-June 2002. At each of these seminars, the consultant (i) delivered an address at a major open seminar on the first day (attended by some 80-100 participants), (ii) was the keynote speaker in a half-day intensive workshop on regional development, poverty and labor markets (attended by with approximately 30 participants) (iii) contributed to discussion in other workshop sessions. Participation in both the seminar and workshops was active and discussions fruitful. Participants viewed the workshops as a valuable follow-up to the earlier series of introductory workshops held in 2000 and 2001. The focus was on for developing strategies for implementation of policies on decentralization.

**Status of Deliverable:**

Completed

# Partnership for Economic Growth (PEG)

## Individual Annual Progress Report

*Dr. Stephen Marks,  
Real Sector Adviser, Bappenas*

*Reporting Period : July – December 2002*

### Introduction

At the time the consultant joined the project last year, it appeared that industrial policy would be one of his major focuses. However, particularly since the last quarter of 2002, at the request the Director of Fiscal and Monetary Affairs in Bappenas and the Director of the Fiscal Analysis Bureau in the Ministry of Finance, the consultant has worked almost exclusively on fiscal and tax policy modeling issues. These efforts have taken the consultant well away from his original work plan, but will provide lasting benefits to Bappenas and the Ministry of Finance in terms of enhancement of their formal modeling capabilities.

### Work Plan Activity 1: *Policy Agenda Development*

The main contribution was to provide practical new methodologies and substantive analyses to Bappenas officials, at their request, in a variety of areas of fiscal and tax policy analysis, which included:

- A policy paper and related spreadsheet on fiscal sustainability analysis, an important input into determination of whether exit from the IMF program is feasible and an important methodological tool for fiscal policy going forward. Very recent studies done by Bappenas and BI had been based on a faulty methodology inherited from an earlier World Bank study.
- A theoretical paper and spreadsheet that provided a new framework for analysis of the value added tax (VAT) system in Indonesia, in particular the impact of sectoral exemptions. This approach used the 66-sector input-output table, and found a shortfall in revenue of 45 percent relative to potential.

In 2003 the consultant continues to work nearly full-time on tax policy analyses that will permit substantial capacity enhancement for Bappenas and the Ministry of Finance:

- Analysis of personal income tax revenue potential based on the 1999 and 2002 Susenas cross-sectional datasets on households throughout Indonesia, at the request of the Directory for Fiscal and Monetary Affairs at Bappenas. Use of this approach may yield fruit substantively in 2005, at which time a major overhaul of the personal income tax system is contemplated.
- Econometric analysis of the demand for clove and white cigarettes, as a basis for a review in 2004 of the cigarette excise tax system, at the request of the Directory of the Fiscal Analysis Body at the Ministry of Finance. The study will attempt to weigh the tradeoffs between revenues, employment, and health, and to provide a clear discussion of methodological issues so that GOI officials can undertake such analyses in the future.

## Partnership for Economic Growth (PEG)

The consultant also completed for Bappenas officials a detailed review of the draft industrial strategy recommendations from the United Nations Support for Indonesian Recovery team, and outlined an alternative vision for industrial policy based on greater market orientation and improved governance.

Among the deliverables that the consultant was to have completed, a white paper on industrial policy for Indonesia has not yet been begun, but this is now a lower priority relative to the fiscal and tax analyses that have been requested by our senior counterparts. Similarly, in lieu of the three revisions or extensions to the Bappenas macro model, higher-priority studies have been completed or are underway, also at the request of senior officials. The attached matrix provides details. However, the consultant did provide short memos to push reform of industrial and trade policy, such as a critique of a proposed coffee export retention scheme (which fortunately never was implemented), and the series of memos on wheat flour discussed below.

### **Work Plan Activity 2: *Capacity Building***

In addition to the contributions noted above and below, many of which involved major capacity-building efforts, the consultant provided:

- Detailed oral and written assistance to an investigation of day-old chicks market to a commissioner and staff of the Business Competition Oversight Commission (KPPU).
- A short methodological piece using the input-output tables to evaluate the impact on prices of the proposed increases in prices of energy products at the start of this year, for the Director of Fiscal and Monetary Affairs at Bappenas and his staff.

### **Work Plan Activity 3: *Crisis Support/Catch All***

Two areas were particularly eventful in this respect:

- A series of memos to the Director for Manpower and Economic Analysis at Bappenas on Indonesia's relations with the IMF. A particular effort was to provide a framework for evaluating whether monetary policy had been too tight under the IMF program, and for understanding possible effects of excessively tight monetary policy during the post-crisis period.
- A series of memos that continued into 2003 on wheat-flour import policy. In response to a request from the head of Team Tariff, the consultant evaluated econometrically a proposal to impose a five percent across-the-board wheat flour import tariff in lieu of anti-dumping duties on selected countries. The Minister of Finance has not yet acted on this issue, and the local flour milling industry continues to apply pressure for additional protection.

Finally, the consultant drafted speeches and talking points for the Minister and other senior officials at Bappenas for a variety of domestic and international forums, and provided calculations of the impact of changes in the terms of trade on net exports for a speech by the Coordinating Minister for Economic Affairs.

# Partnership for Economic Growth (PEG)

## Individual Annual Progress Report

Stephen L. Magiera  
International Policy Specialist

Reporting Period : 2002

*Focuses on deregulating the real economy and the development of a modern regulatory system for telecommunications. Internationally, this includes the elimination of barriers to foreign trade in goods and the elimination of regulations affecting foreign access to the Indonesian market for services.*

**Workplan Activity 1: Trade Policy Reform:** *Update the Project's trade policy database and provide policy memorandum on trade policy issues as requested*

### Accomplishments:

Indonesia's trade regime is now fairly open because of reforms implemented during the 1990's. As a result, PEG project activities during the year mostly consisted of short briefings on trade policy, on preventing backsliding on previous reforms, and on improving Indonesia's interagency trade policy process.

- With PEG Bappenas, briefed the Minister of Finance on Indonesian trade policy, and recommended strengthening Team Tariff as a policy advisory institution to the Minister. As a result of the briefing, the Minister issued a decree renewing Team Tariff. Also provided USAID a memorandum on technical assistance to improve the interagency policy process.
- Prepared brief policy memos: for the Minister of Finance on a tariff quota for rice; on Thai sugar policies in response to request for lower sugar duties in ASEAN; for USAID on the implications of the ASEAN Free Trade Agreement.
- While on evacuation status, responded to several requests for information on US trade policy and Indonesian WTO commitments in order to help diffuse trade tensions, including notes to the Coordinating Ministry on the U.S. Container Security Initiative and the legality of Indonesia's restrictions on imports of textiles and garments.
- Briefed World Bank and IMF missions to the January 2003 CGI meetings on Indonesian trade policy. Coordinated PEG trade policy activities with other donor agencies, including the World Bank and AUSAID.

### REQUESTS/FUTURE WORK:

The Coordinating Ministry has requested that PEG develop a capacity building project on "Mainstreaming Trade Policy." The project would cover trade policy formation, the role of the private sector in international trade negotiations, and the administration of trade policy. Team Tariff has also made several requests at the behest of the Minister. Foremost of these is to make Indonesian trade policy more transparent by making trade policy information

## Partnership for Economic Growth (PEG)

available on line. In this regard, Team Tariff has also requested that PEG make its trade policy database available to the Ministry of Finance.

**Workplan Activity 2: WTO Built-In Agenda and Multilateral Trade Negotiations:**  
*Provide technical assistance and training on multilateral trade agreements, including the WTO built-in agenda on agriculture and services.*

### **Accomplishments:**

A major element of the PEG work program during the year was to facilitate Indonesia's participation in ongoing negotiations in the WTO, including those on agriculture and services. During the year, the Project devoted significant resources to assisting the Government in the WTO services negotiations by reviewing government regulations in some 25 services sub-sectors. The Project's reports were regularly on the agenda at strategy meetings of Indonesia's inter-ministerial team (the National Team on WTO Services).

- Conducted detail reviews and developed WTO-consistent schedules of all Indonesian laws and regulations affecting market access and national treatment of foreign service providers of the following services:
  - Business Services (legal, accounting and other professional business services).
  - Environmental Services (sewage, refuse disposal, and sanitation services)
  - Communication Services (fixed line telephone services, cellular, internet, VOIP, and enhanced multimedia services).
  - Education (primary, secondary, university, vocational, distance learning).
  - Health (hospital, and other human health services).
  - Distribution Services (wholesale, retail, commissioned agents, franchising).
- In order to help the Government formulate services requests from other countries, PEG also reviewed restrictions affecting foreign providers of selected services (labor, computer, construction, telecommunications, and tourism) in markets of interest to developing countries. The objective was to point out the possible benefits of a multilateral agreement on services to developing countries.
- Briefed the Ministry of Agriculture and negotiators from the Ministry of Industry and Trade on Indonesia's obligations under the Uruguay Round Agreement on Agriculture, particularly the legality of tariff quotas and state trading. Provided in-depth information on negotiating strategies, including Indonesian tariffs vs tariff escalation in other countries, sanitary/phytosanitary restrictions, special and differential treatment, and *de minimus* standards for the green box.

### **REQUESTS/FUTURE WORK:**

The Government, through its Ambassador in Geneva, has requested that PEG to expand its service sector reviews to include transport, express mail, and tourism, and that PEG organize a training program on the techniques for collecting services data. The Government would also like PEG to sponsor workshops on the agriculture negotiations in the WTO.

## Partnership for Economic Growth (PEG)

**Workplan Activity 3: APEC Action Plans:** *Provide input on Indonesia's APEC action plan. Support the Government's participation in other APEC activities as requested.*

### **Accomplishments:**

APEC has developed a standard format for the submission of trade policy information at the annual meeting of Trade Ministers. Although PEG has contributed to Indonesia's APEC action plans in the past, no inputs were necessary in 2002 since these were done by the Government. Instead, PEG has focused on capacity building.

- Supported the Ministry of Industry and Trade in developing a training proposal for APEC's WTO capacity building project. Indonesia's bid was successful and resulted in an award of \$95,000 for a training program on the harmonization of food safety standards.

### **REQUESTS/FUTURE WORK:**

PEG will cosponsor an APEC capacity building symposium on food safety standards in June of 2003 for developing countries throughout the Asia region. Indonesia has been given the lead role for the ASEAN Enterprise Initiative with the United States and has requested PEG assistance on developing a framework for the Initiative.

**Workplan Activity 4 : Anti-Dumping and Safeguards:** *Develop recommendations for administrative procedures reflecting international best practices in the use of anti-dumping and safeguard measures.*

### **Accomplishments:**

Developed recommendations on the establishment of an independent authority to administer Indonesia's anti-dumping procedures, and recommended changes to Indonesian regulations which are based on international best practices for national interest, the lesser duty rule, and transparency. Reviewed Indonesia's draft safeguard regulations and recommended similar changes.

**Workplan Activity 5: Telecommunications:** *Provide assistance on international best practices for the implementation of Indonesia's Telecommunications Law, the development of a modern regulatory system for telecommunications, and the establishment of an independent regulatory authority.*

### **Accomplishments:**

A major element of the PEG Project is the development of a modern regulatory framework for telecommunications based on competitiveness principles. The Project provided technical assistance on international best practices for implementing Indonesia's Telecommunications Law, and socialization and capacity-building seminars for the Ministry of Communications, the Indonesian Telecommunication Society (MASTEL), and the private sector. A major new

## Partnership for Economic Growth (PEG)

activity during the year was the analysis of compensation issues resulting from the guarantees granted to PT Telkom and PT Indosat during their IPO's.

### Briefing papers, recommendations, and informal roundtable discussions:

- Worked closely with the Interconnection Task Force of the Indonesian Telecommunications Society (MASTEL) to develop a consensus and provide recommendations on the Government's draft decree on interconnection. Organized a workshop with MASTEL and the private sector to bring about greater transparency and obtain private sector input on the decree. Separately interviewed the Indonesian Association of ISPs, government consultants, fixed and mobile network operators, and other interested parties from the private sector.

The decree sets the stage for investment and new entrants into the Indonesian telecommunications market, and is a major step forward in bringing competition to the market. Although based on a key PEG recommendation on call termination, initial drafts of the decree contained loopholes that could lead to abuse by Indonesia's incumbent telecom operators. As a result, PEG provided additional recommendations on 1) interconnection rates that are closer to costs; 2) clarified rules on the technical obligations of interconnection; and 3) new procedures for settling disputes. Most of these recommendations have been incorporated in a new draft decree.

- Recommended a new approach to meeting universal service obligations which is based on competitive bidding and which would lead to greater private sector participation in the build-out of Indonesia's telecommunications network. Aided the Government in the design of a pilot program for expanding telecommunications services in rural areas.
- Provided recommendations for an interim agreement on the Government's obligations to PT Telkom and PT Indosat for the exclusivity rights granted to each company during their IPO's. The recommendations resulted in a last minute compromise between the Government and Indonesian telecom companies, and thereby averted a legal crisis. The compromise allowed the licensing of Indosat in selected local markets to move forward, pending a final decision on compensation.
- Conducted a detailed review and provided recommendations on a report by the Government's financial consultants regarding the compensation due PT Telkom and PT Indosat for lost exclusivity in fixed-line telecommunication markets. In a major success, the Government has adopted the PEG view that compensation has been overestimated and that compensation has effectively been paid with new 3G frequency licenses. A final decision must now be made by the inter-ministerial team on restructuring under the Coordinating Minister.
- The Government has introduced new, modern telecommunication licenses that are based on rights and obligations of the licensees. During negotiations of the license with PT Telkom, PEG successfully introduced new language that requires upstream providers of basic services to treat subsidiaries and competing providers of downstream services equally.

## Partnership for Economic Growth (PEG)

- Met with foreign investors and financial advisors to discuss the impact of various regulatory issues -- interconnection, formation of an IRB, VOIP, and licensing – on the structure of Indonesia’s market for basic telecommunications. Prepared the Government’s response to a policy review prepared by potential investors in the next private placement of Indosat shares.
- Helped develop a consensus between the government and private sector on the establishment of an independent regulator for telecommunications. As a result, the Government contracted ITB in Bandung to examine legal issues relating to the formation of an IRB with the idea of developing amendments to Indonesia’s Telecommunications Law.
- Worked closely with the foreign business community on telecommunications regulatory reform in Indonesia. Along with PEG consultant Larry Darby, was the featured speaker at luncheons of the American Chamber of Commerce. Provided a briefing note on an independent regulator which was adopted by AMCHAM for a formal briefing of the Coordinating Minister.
- Consultant Nathaniel Clarke reviewed policy options for broadband communications services and provided recommendations on policies for Voice Over the Internet (VOIP) in order to help the Government re-evaluate its licensing procedures. Clarke also gave a seminar at ITB in Bandung on policies for broadband communications.
- Coordinated activities with the World Bank, particularly with regard to the formation of an independent regulatory body for telecommunications, the Bank’s infrastructure development loan, and PEG participation in ICT donor meetings.

### REQUESTS/FUTURE WORK:

The establishment of an independent regulatory body has been identified as a priority by the Indonesian private sector, foreign business community and international donor community. Follow-on work will include a review of the academic draft from ITB and eventual implementation. In addition, the Government has requested PEG assistance on a frequency allocation plan and on training in regulatory issues.

**Workplan Activity 6: Enhancing Industry Competitiveness:** *Conduct sector studies on regulatory reforms and competitiveness issues, especially in the services sector.*<sup>3</sup>

### Accomplishments:

Background information for this activity was collected under during work on the WTO services negotiations. This work documented the regulatory environment for a variety of services. As a result of that work, the Government has requested follow-up analysis and workshops on the unilateral liberalization of selected service sectors. For example, the

---

<sup>3</sup> This activity was undertaken at the request of the Indonesian Government and replaces the activity “Export Performance and Related Policies,” which was included in the Plan of Work for the 5<sup>th</sup> year extension.



## Partnership for Economic Growth (PEG)

report on distribution services was used in an in-house workshop to make the investment rules for distribution services more coherent and transparent.

- PEG undertook a study of educational services which found that decentralization and its impact on the government procurement process may have a greater negative impact on the quality of higher education in Indonesia than restrictions on foreign education providers

### **REQUEST/FUTURE WORK:**

In addition to the requests above on selected services industries, the Indonesian Business Solutions Center has recently made a major request for assistance from PEG. Initially, the request is capacity building for Indonesian trade associations on trade and industrial competitiveness, and for individual studies/recommendations on selected impacting the competitiveness of the Indonesian business sector (e.g. VAT taxes on imported inputs and high port costs).

### **Work Plan Activity 7: Short-run staff requests and other Ad Hoc Requests/Meetings:**

#### **Accomplishments:**

1) Prepared background materials for the Ministry on the WTO agricultural negotiations and Indonesian regulations affecting foreign providers of business services; 2) With other PEG consultants, briefed the US-ASEAN Business Council on Indonesian trade policy; 3) Provided a briefing note on telecommunications regulatory reform for the U.S. Ambassador's meeting with the Minister of Communications; 4) Prepared talking points on an independent regulator for a visit of the Executive Director of the IDA from Singapore; 5) Prepared a briefing note on the rebalancing of retail prices for pricing discussions in Parliament; 6) Provided background information on the world sugar market for a meeting between Indonesian trade officials and the European Union; 7) Reviewed USTR's National Trade Estimate report for the U.S. Embassy.

While on evacuation status in Washington DC, held discussions with numerous officials from the US Government, think tanks, and international organizations regarding Indonesian trade policy, the participation of developing countries in the WTO negotiations, telecommunications regulatory reform, agricultural policy and rural development, and the PEG program of work:

# Partnership for Economic Growth (PEG)

## Individual Annual Progress Report

*Dr David Ray,  
Domestic Trade Advisor*

*Reporting Period: 2002*

### Introduction

In 2002 the focus of the Domestic Trade position was increasingly in favor of microeconomic and regulatory reform issues. Identification of policies and regulations in need of urgent reform remained an important priority. However greater emphasis was given to developing institutional, legislative and/or market-based solutions to these problem areas. Examples include the development and socialization of regulatory review techniques in the region, and the promotion of private-sector participation in the ports. This forms an important part of an exit strategy to promote counterpart capacity to deal with these people after PEG's completion.

***Competition Policy and Deregulation-* Assist with the development of legislation and supporting institutions at the national level that will help ensure fair trade and competition for all parties in an increasingly deregulated economic environment.**

*Deliverables:*

#### *1. Policy memoranda, papers as requested*

Wrote a policy paper for MoIT counterparts on institutionalizing regulatory reform in decentralizing Indonesia. The paper titled “*Developing a New Regulatory Framework under Decentralization: Rethinking National Competition Policy*”, argues that

- Present institutional arrangements governing local regulations are failing and as a result the domestic competition environment is suffering.
- Indonesia needs to develop a national regulatory framework, whereby the onus of reviewing and justifying local regulations is returned to regions. The review process should be based upon key legislative principles set by the central government and carried out according to established methodologies and procedures as developed in other countries.

This paper, distributed in both English and Indonesian, has had considerable impact both within and without MoIT:

- During a presentation to the DG Domestic Trade, the DG suggested to his staff that this paper form that basis of a new Keppres (Presidential Decree) that would provide a set of legislative guidelines for local governments as a means to prevent the continuing proliferation of competition and trade distorting regulations at the local level.
- An edited version of this paper was published in the Domestic Trade Directorate General's quarterly policy journal.

## Partnership for Economic Growth (PEG)

- Sections of this paper have also been imported into the MoIT's regulatory review manual for local governments currently being developed by the R&D Agency (with PEG assistance) – see below.
- More generally, there is now growing awareness of the need to develop a better supervisory institutional framework at both the central and local level to ensure that local regulations do not undermine national competitiveness.

The paper has also attracted the attention of a number of NGOs working on licensing and regulatory reform issues. There are now two PEG small grant activities based on suggestions put forward in the paper.

### *2. Training seminars/workshops*

Various training lectures for around 20 –30 staff of the Directorate General for Domestic Trade, MoIT, on a range of issues including retailing, business licensing and regulatory review.

Presentation at a national workshop for all regional heads and their staff of the Domestic Trade section from every provincial office of Industry and Trade (*DINAS INDAG* - the former vertical agencies of the MoIT at the provincial), as well as central government Domestic Trade officials – approximately 100 people. The focus of my presentation was on the need for a more systematic and transparent regulatory review process at the local level, as well as the microeconomic principles of good regulation.

Prepared and delivered a lecture for the Masters Program in Economics at the University of Indonesia on the topic of competitiveness. Approach was to focus on sectoral and regulatory issues. The former was based PEG's work on the Textile and Apparel sector (see below) The latter half of the lecture focused on the likely threat which decentralization poses for the regulatory environment, such as the uncoordinated setting of taxes and the inappropriate use of user-charges, and how this will adversely impact upon the country's international competitiveness.

Presentation at a one day seminar at City Hall Jakarta (DKI) titled 'Mengoptimalkan Potensi dalam Pelaksanaan Otonomi Daerah di Propinsi DKI Jakarta' (Optimizing the potential of Jakarta in implementing decentralization). Topic of my presentation was the need for a more effective regulatory review process at the local level. The Seminar was attended by around 150 people, and opened by the Jakarta Governor.

***Decentralization and Domestic Trade - Monitoring the impact of regional autonomy on domestic trade and the business climate at the local level. At the national level, development of appropriate legislation and institutions to ensure free internal trade in the decentralizing era.***

By bringing government 'closer to the people' decentralization brings with it the opportunity for more efficient and accountable government. However, decentralization also brings with it the threat of uncoordinated setting of taxes, and the use of discriminatory measures such non-tariff barriers to favor locals over outsiders. In the current fiscal climate, taxes on trade are

## Partnership for Economic Growth (PEG)

particularly worrisome as they work to undermine national economic integrity and typically drive a wedge between farmgate and wholesales prices thereby depressing agricultural incomes.

### *Deliverables:*

#### *1. One or more regional studies on the impact of decentralization upon the business climate.*

A number of regional studies were commenced and/or completed in 2002. In each the Domestic Trade Advisor designed the study, was directly involved in its implementation, attended briefings on interim results, reviewed and edited draft reports and attended/presented at the various socialization seminars. These studies included:

- Study by the Bandung Institute of Government Studies - focus of the study was to dissect and analyze the regulation/policy making process at the local level. Particular attention was given to public interest aspects as well as overall economic rationality underlying local regulations. In-depth case studies were carried out looking at *retribusi* (user-charges) in the labour and transport sectors in the township of Bekasi as well as a regulations governing the activities of SMEs in the township of Tasikmalaya. This is an important study as it helps open up the 'black box' of local policy making and provides clear recommendations to ensure that local regulations support the public interest and are based upon sound economic rationale. Results were socialized at a seminar in Bandung in November 2002. A national seminar is planned for March 2003 to disseminate the results to policy makers in Jakarta.
- Survey of 1000 businesses to determine the impact of decentralization upon the business climate. This survey was a joint PEG - The Asia Foundation project carried out over the third and fourth quarters of 2002. A series of socialization seminars and press conferences are planned for the first half of 2003.
- Two desk surveys by the KPPOD covering 700 local regulations<sup>4</sup>. Results of the studies were presented at socialization seminars at the Horizon Hotel, Bekasi, and the Grand Hyatt in central Jakarta. Key results included:
  - o Around 70% of local regulations were assessed to be problematic (50% for substantive reasons). Most tend to be *retribusi* (user charges)
  - o Many regulations surveyed were trade distorting.
  - o Non-listed taxes and *retribusi* are twice as likely to be problematic than non-listed taxes and *retribusi*.

---

<sup>4</sup> The KPPOD or Regional Autonomy Watch ([www.kppod.org](http://www.kppod.org)) was set up by the Indonesian Chamber of Commerce (KADIN) to monitor the impact of decentralization (in particular the impact of new local regulations) upon the private sector. It is now clear that the present institutional arrangements in place to supervise local regulations are inadequate, as too much of the burden has been placed upon the central government. The result is that we have seen the proliferation of highly distorting and burdensome regulations at the local level. For this reason KADIN has developed KPPOD as its own regulatory review and lobbying body. The KPPOD is at the frontline of promoting a more conducive regulatory environment for the private sector. They are one of the few (if not the only) reliable sources of information on local regulations, and have a strong media profile for promoting regulatory reform.

## Partnership for Economic Growth (PEG)

- The Results of this PEG funded KPPOD study has been widely quoted in the media and have been fed into the review process at the Ministry of Home Affairs and the Ministry of Finance. Following the PEG-KPPOD reviews, a number of local regulations were cancelled by the central government.
- Study by SMERU on the impact of regional autonomy on the business climate in West Java. A socialization seminar attended mainly by local government officials was held in Bandung. The study shows that there are a large number of problem local regulations in West Java. The format of this seminar was a little different to similar socialization seminars held in 2001. In the afternoon session 4 groups were formed and given specific policy tasks on how to improve the business climate – highly successful exercise, resulting in a number of recommendations on particular regulations.
- Study by SAWALA on the effectiveness and appropriateness of nine local regulations in Garut and Tasikmalaya in West Java. For each of the regions, a stakeholder dialogue session was held and was attended by DPRD members, local government officials, business people and NGOs. In each of the dialogues, the 50-60 participants broke into 4-5 discussion groups to identify 10 core problems or issues with one of the regulations. Each group then presented their recommendations. Various were problems identified such as the poor pricing, lack of service delivery, inconsistency with existing laws and regulations, double taxation and poor problem identification. More generally it appears that these local governments, like most other in Indonesia, have little understanding of the appropriate use of user-charges (retribusi). Final results will be presented in both locations, and also Bandung in February

### *2. Frequent updates on problem local regulations (perda bermasalah)*

Multiple reports/memos to DG Domestic Trade and the Minister (MoIT) regarding problem local regulations (*perda bermasalah*) that distort the business environment. Based on PEG research, DG Domestic Trade has made recommendations to both the Minister (MoIT) as well as the DG Regional Autonomy at the Ministry of Home Affairs regarding these problem regulations. Also, at the request of the Competition Commission (KPPU) provided information regarding regulations that promote ant-competitive practices in the regions.

### *3. Assistance for MOIT in developing a new national law on free internal trade*

Continued assistance to the MoIT in developing the proposed law on the internal flow of goods and services (i.e. Indonesia's law for free internal trade in the decentralizing era). This law is designed to provide the legal and institutional basis to ensure free internal trade in the decentralizing era. It is a direct result of PEG's policy and monitoring work on decentralization and domestic trade (in particular the major PEG-USAID-MoIT conference held in April 2001 on 'Globalization, Decentralization and Domestic Trade'). Activities included:

- Participation in various socialization seminars for the academic text of this planned law.
- Various memos regarding the draft, particularly with regard to the functions and responsibilities of the proposed commission to oversee the law.

## Partnership for Economic Growth (PEG)

With PEG assistance the draft has been completed and has been forwarded to an inter-ministerial committee for review in the fourth quarter. Importantly, late in the year the Minister announced the proposed law to the media and was widely reported in the press.

Participated in an ELIPS legislative drafting course as a guest resource person. One of the legislation examples used in the group sessions was the proposed MoIT law described above. Six of the participants of the course were from MoIT's DG Domestic Trade and R&D Agency.

### *Other accomplishments:*

Completed a paper (with Gary Goodpaster) titled "Indonesian decentralization: local autonomy, trade barriers and discrimination" to be published in a book by Curzon-Routledge 'Decentralization and Disintegration in Indonesia,' published in November 2002.

***Conducive Local Regulations - Assistance directed at the local level to socialize policies that promote trade and other economic activities; and to institutionalize more effective regulatory review mechanisms as a means to prevent unnecessary and trade distorting local regulations.***

An important means to prevent or minimize barriers in domestic trade is to socialize how both good and bad regulations respectively impact upon the local business environment. An important missing ingredient in the process of developing regulations at the local level is the institutionalization of an effective regulatory review system. Such a process requires the completion of regulatory impact assessments to ensure that costs of regulation do not exceed the benefits and that the problem to be solved actually requires explicit regulation.

### *Deliverables:*

#### *1. Work with local universities, on such factors as various socialization and training workshops*

Participated in the joint IRIS-LPEM-PEG program of regional workshops for university lecturers on public policy in the decentralizing era (with Chris Manning from PEG, Bambang Brojonegoro and Robert Simanjuntak from LPEM). My presentations focused on measures to improve the regulatory environment for business, in particular the need to institutionalize an effective regulatory review process at the local level, as well as the appropriate use of user-charges. Three-day workshops were held in Makassar (South Sulawesi), Medan (North Sumatra), Palembang (South Sumatra) and Malang (East Java) – however I was unable to attend Malang due to illness (malaria).

In Jayapura, Papua: Provided the opening session for a highly successful IRIS seminar on legislative drafting. Participants were mainly DPRD members and local government officials. The focus of my presentation was the need for a more rigorous and effective regulatory review process to prevent regulations that damage the local business environment. Participated in later sessions, in particular those directed at producing 4 particular local regulations. Also whilst in Jayapura delivered a lecture at UNCEN for around 150 staff and students on the importance of promoting a conducive business environment in the (special) autonomy era.

## Partnership for Economic Growth (PEG)

### *2. Other Accomplishments*

With a team from the MoIT R&D agency ran a series of regional workshops on regulatory review for public officials (in Lampung, Bali and Manado). Using material drawn from OECD regulatory review manuals (in particular that from Australia), the MoIT is now socializing key principles of good (local) regulations in the regions – emphasizing important aspects such as simple cost-benefit analysis, regulatory alternatives, problem identification etc – as a means to prevent (or at least restrain) the proliferation of competition and trade inhibiting regulations. My presentations focused on the appropriate use of *retribusi* (user-benefit charges) as most problem local regulations tend to be in the form of *retribusi*. Further regional workshops are planned for 2003, as well as a training workshop for staff from the Ministry of Home Affairs.

Material from these workshops is being compiled to produce a regulatory review handbook specifically for local government. This manual pulls together the work by PEG Domestic Trade Advisor on the principles of good local regulations, as well as the regulatory review work by MoIT counterparts. This is the frontline effort of the MoIT combating the many competition and trade distorting regulations and practices that are continuing to emerge in at the local level. We hope to formally publish the manual in coming months, and to distribute it widely amongst regional governments and also central government agencies.

### ***Distribution Systems - Identification and analysis of issues and problems affecting the distribution sector in general, and/or the distribution system for specific commodities***

A well functioning distribution system improves the competitiveness of Indonesian producers by allowing products to reach the market quickly at low delivery cost. An efficient distribution system is also important in that it serves consumers by expanding their choices and by providing better services and products at ever-lower prices. There has been much progress in recent years in improving the Indonesian distribution system. However many problems still remain (such as infrastructure bottlenecks, information asymmetries and locally imposed trade barriers). An important recent focus for the Domestic Trade Directorate General has been to use domestic commodity price data to measure distribution efficiency. MOIT has also requested assistance in monitoring the impact of certain events (such fuel price rises, Lebaran) upon domestic food (and other) prices.

#### *Deliverables:*

##### *1. One policy study or equivalent, policy memos and training to assist in the analysis of domestic price data.*

With Peter Minor (short term from Nathan) undertook analysis of domestic commodity price data collected by MoIT on a daily basis. The objective of the analysis was to help MoIT monitor the efficiency of the distribution system, and to demonstrate what can be done with the dataset. Key results of this work (as presented at an internal seminar for Domestic Trade counterparts from MoIT) included:

- Recommendations on improvements in the method of data collection/storage/processing
- Highlighting distribution problems as identified in the data

## Partnership for Economic Growth (PEG)

### *2. Analysis and short memos on the impact of key events upon food prices*

Updated earlier econometric analysis on the impact of fuel price increases upon the general and food price level. Long run elasticities were estimated. Drafted memo for Minister and DG Domestic Trade.

### *Other Accomplishments*

With AKADEMIKA (research NGO focusing on domestic trade issues), and in consultation with MoIT counterparts, designed a study on the licensing and regulation process for modern retailers under decentralization. This study is intended to provide important input to the current efforts to introduce new regulation to restrict the activities of modern retailing. Central to the planned study (to be carried out in the first quarter 2003) is a cost benefit component that will determine the net costs/benefits to the community for a particular modern retailer in three districts in West Java. The study will be funded by a PEG small grant.

***Port Sector Reform - Analysis and policy assistance with regards to improving the performance of Indonesian ports through greater private sector participation and also in developing appropriate legislation and institutions governing port sector affairs in the decentralizing era or an equivalent activity as judged by the CTO.***

In an archipelago and essentially agrarian nation such as Indonesia the development of efficient distribution and trade systems (both domestic and external) is very dependent upon the transport infrastructure, in particular the port sector. The Indonesian port sector lacks modernization and remains largely inefficient. This is due to a general lack of competition and private sector participation in the sector. The Ministry of Communication and Transport (MOC) has requested assistance in developing strategies for promoting private sector investment in the sector and in developing a new decentralization consistent national law on ports.

*Deliverables for the port activity (comparable deliverables as judged by the CTO if the study area is changed):*

### *1. One policy study on improving private sector participation in the port sector*

With Richard Blankfeld (a short-term transport specialist from Nathan Associates) carried out research and analysis on port sector development. This represents a follow-up study to the earlier PEG study (completed March 2001) on shipping. The focus of this on-going study is exploring options and strategies for increasing private sector participation in the port sector. Activities included meetings with government (MOC) and Port Corporation officials, field trips to a number of ports in the regions, as well as various presentations at the MOC on our ideas for increasing private sector investment in ports.

After the final report on exploring options and strategies for increasing private sector participation (PSP) was completed, the Ministry of Communications requested PEG to develop a model for port/terminal privatization (including info memorandum, financial models, concession agreements, strategic plan etc), based upon a particular port – a model



## Partnership for Economic Growth (PEG)

that could be used in subsequent privatization efforts. After a series of meetings and internal memos (including that showing the interest and support of the Minister), the Port of Kariangau in Balikpapan was chosen as the likely candidate. A four-day fieldtrip to East Kalimantan followed. The study concluded that there are excellent prospects for public-private cooperation in developing the port as a gateway port for the entire province (assuming the planned Balikpapan-Samarinda highway moves ahead). Unfortunately PEG budget cuts in the third quarter meant that we could not proceed with this work to facilitate PSP in the port.

### *2. One policy study on laws and institutions governing ports in the decentralizing era*

Traveled twice to Cilegon, Banten, to research the dispute between the Central and Cilegon governments over regulatory control of the private ports in the district of Cilegon. This is quite a controversial case as the central government regulates private ports such that they cannot compete with public ports. A policy study was produced (during the evacuation period Nov-Dec 2002) recommending liberalization of private sector ports such that they can accommodate third-party cargo (consistent with the position of the government of Cilegon and other local governments with private sector ports within their jurisdiction).

### *3. National workshop on port sector development*

Due to the ordered departure, we were unable to proceed with the national workshop in 2002.

## **Industrial Competitiveness - Research and analysis of key issues affecting Indonesia's industrial competitiveness.**

### *Deliverables:*

#### *1) Provide input, in the form of papers and memos, to the development of a new industry policy vision at the MOIT*

Wrote talking points to be used by MoIT counterpart in his presentation at the conferences in Berlin and Geneva in October, 'Mainstreaming Trade into Indonesia's National Development Strategy'

At the request of the Chairman of the MoIT R&D agency wrote a short brief on how market incentives can be better used to promote the use of local goods and services. This brief was to be used as background for the Minister's planned briefing session of the President on the issue.

Produced a memo outlining the many problems confronting MoIT's sectoral technology institute for textiles. The paper also puts forward a number of key suggestions for improving the institute's performance, and was used by the Minister in her efforts to reform and revitalize this institute, and others under the control of MoIT.

#### *2) At least two sector studies.*

With Ted James and Peter Minor, produced a major report on demand and supply side problems confronting the Indonesian Textile and Apparel Sector. As well as a final report,

## Partnership for Economic Growth (PEG)

various memos were distributed to MoIT counterparts, a number of presentations and an abridged version of the report were published in a leading international journal. As a result of our efforts there is now widespread understanding (perhaps concern) within MoIT regarding the many problems confronting Indonesia's textile and apparel industry. MoIT has translated parts of the report and distributed it to industry players. MoIT has also written to PEG asking for a more detailed follow-up study on textiles and apparel.

Designed and managed a study by CastleAsia on the Petrochemical and Plastic Sector. A memo summarizing key points of the study was written and later distributed to MoIT counterparts.

***Ad hoc requests - Respond to short run MOIT and USAID/PEG requests and prepare speech materials as requested***

*Deliverables:*

*1) Attendance and participation at meetings/committees as requested*

Active participation in the PEG small grant program including

Reviews of applications

Mentoring various programs

Attending, opening and presenting at a number of socialization seminars

# Partnership for Economic Growth (PEG)

## Individual Annual Progress Report

William E. James

Reporting Period: January 1-December 31, 2002

Senior Economic Advisor, BI

**NOTE:** After a series of meetings with senior Bank Indonesia officials and USAID, a formal request was made by Deputy Governor Achjar Iljas for me to be assigned as an advisor at BI in the Economic Research and Monetary Policy Directorate. Follow up meetings with BI officials of that directorate and with Senior Deputy Governor A. Nasution led to formulation of a work plan for the period July 2002-June 2003. The move from MoIT to BI was completed early in the second quarter of 2002. This annual progress report therefore is based upon two workplans. One designed for MoIT ending in March 2001 and a second developed with BI and revised twice. The activities in MoIT and BI overlap but the focus will be on the revised workplan objectives for BI implemented over the period of April-December 2002.

**Workplan Activity 1: Research on Inflation and Monetary Policy:** *develop a research program aimed at enhanced understanding of the process of inflation and methods for bringing the inflation rate, as measured by the Consumer Price Index (CPI) down to medium term target levels.*

### Accomplishments:

- Presented *Indonesia's Economic Performance and the Global Economic Situation: Prospects for Recovery* to the staff of Bank Indonesia, Center for Education and Central Banking Studies in a Round Table Discussion in March.
- Participation in internal meetings of the Directorate for Research on Economics and Monetary Policy on inflation targeting and instruments to be used. Held discussions with Senior Management of BI on related topics and provided materials on monetary transmission, inflation targeting and related issues.
- Prepared a memorandum on deposit insurance for Senior Deputy Governor.
- Prepared a memorandum for the Senior Deputy Governor on Central Bank independence, transparency, and issues surrounding accountability of the Central Bank to the public. The memo summarizes evidence on six alternative views of Central Bank transparency and issues related to the objective of price stability and the choice of the policy instrument to achieve that goal.
- Co-authored a study titled "*The Debt Trap and Monetary-Fiscal Policy in Indonesia: The Gathering Storm?*" on the implications of public debt for Indonesian monetary and fiscal policy with the Senior Deputy Governor. The paper was presented at the 8<sup>th</sup> Convention of the East Asian Economic Association in Kuala Lumpur in November by my counterpart Senior Deputy

## Partnership for Economic Growth (PEG)

Governor Anwar Nasution and will be published by Indonesia's National Science Foundation (LIPI) in their economics journal.

- A series of working meetings were held with officials from Bank Indonesia with officials from USAID, the IMF, USAID/Barents on the issues surrounding the development of a deposit insurance scheme. Short-term consultants, David Cook and Sandra Waldorp were brought out to provide a seminar and other inputs to BI, IBRA and MOF officials on issues related to deposit insurance in cooperation with USAID, USAID/Barents and the IFIs.
- Prepared initial *Inflation and Deflation Watch in the East Asian Region: Report for the Third Quarter of 2002*. This report provides a regional overview of developments in CPI inflation in 9 major East Asian economies, including Indonesia. Bank Indonesia succeeded in hitting the inflation target for CY 2002, at 10.03 per cent (Consumer Price Inflation), below the 12.55 per cent of CY 2001.
- Revised and updated the workplan through April-June of 2003. Revised work plan reflects two major components of on-going work not included in the original work plan, namely 1) work on anti-money laundering and countering terrorist financial transactions; and, 2) work on financial system safety net issues, including replacement of the blanket guarantee with a limited coverage deposit insurance scheme. These components are conducted in cooperation with other USAID-funded projects (ELIPS and Baring Point) as well as with FSVC, the IFIs (particularly the resident offices of IMF and ADB) and other donors such as AUSAID and World Bank. My main role is to expedite a series of seminars involving short-term experts, donors, government institutions, Commission IX, academics, and private industry representatives (see accomplishments under Workplan Activity 3 below).

**Workplan Activity 2: Research on Productivity in the Real Economy, Capital Formation and Inflation:** *establish a working group on productivity and will seek to enhance measurement of productivity and productivity growth in the Indonesian economy.*

### Accomplishments:

- Prepared technical reports and memos on Indonesia's Foreign Trade Performance in 2002 in Regional Perspective as an input for the regular Quarterly meetings of the Board of Governors of BI. *The Turnaround in East Asian Trade: Evidence from the 3<sup>rd</sup> Quarter of 2002* is the latest update that could be prepared with the available data.
- Organized and moderated a seminar on Productivity, Wages and Foreign Multinationals in Indonesian Manufacturing participated in by 24 staff of BI. This seminar brought to the attention of the Research Dept. the importance of analysis of productivity trends in the real sectors of the economy and of linking wage rewards to productivity improvements.

## Partnership for Economic Growth (PEG)

- “Indonesia’s Textiles and Apparel: the Challenge Ahead” (with David Ray and Peter Minor) was submitted to *Bulletin of Indonesian Economic Studies* based upon the longer textile and apparel industry report prepared for MOIT. See Quarterly Report of David Ray for more detail on the impact of the report on MoIT and the Indonesian Textile Association.

**Workplan Activity 3: Coordination of Short-term Technical Assistance and Development of a Regular Research Seminar Program on Financial System Safety and Stability:** *improve the research environment in Bank Indonesia. The objective will be to establish a regular, on-going research seminar program with voluntary attendance and participation by BI researchers.*

### **Accomplishments:**

- Met with Laura McQuade of FSVC and began to develop a plan for use of FSVC expertise in the coming quarters. Attended meetings and held discussions with short-term visitors under FSVC on research in the regional branches of BI and other issues. Met with Mike Hemmes and Chad Wolf of the FSVC following Laura’s departure to New York in order to explore collaborative work on issues such as the Lender of Last Resort (LOLR) function of the Central Bank.
- Meetings were held with Perry Wardjiyo of the Transformation Team and with officials from Biro Kredit on training, capacity-building and short-term consulting needs of Bank Indonesia (with Tom Timberg).
- Helped to organize a successful seminar on deposit insurance with participation of officials from BI, MOF and IBRA (with Martin Dinning, COP of USAID/Barents, IMF and ADB).
- A series of working meetings were held with officials from Bank Indonesia with officials from USAID, the IMF, USAID/Baring Point, ADB, FSVC, World Bank and PEG advisors in BI and MOF (Bill Wallace) on the issues surrounding the development of the components of a financial sector safety net. A memo on the proposed seminar series was prepared and was approved of by counterparts at Bank Indonesia. The seminar series will cover the major components of the financial safety net: deposit insurance, bank supervision and resolution, financial stability surveillance, and lender of last resort function of a Central Bank. The series is planned to be launched in the early part of 2003. Senior Deputy Governor Anwar Nasution and Muliaman Haddad have agreed to coordinate invitations to the seminar series with BI, IBRA and MOF officials and with representatives of Commission IX of Parliament, private industry representatives and academics. The seminar series will feature two seminars on issues related to deposit insurance in cooperation with USAID, USAID/Baring Point, FSVC, PEG and the IFIs.

## Partnership for Economic Growth (PEG)

- Prepared a report summarizing the work I have undertaken on counter-terrorist finance and anti-money laundering. This work has included participation in the PEG/USAID/CSIS seminar on the Economic Costs of Terrorism, where I presented a paper on the impact of the 911 attacks on global and regional trade titled, *Indonesia's External Trade and Competitiveness: Assessing the Economic Costs of Terror*. Coordinated a meeting on these issues with Senior Deputy Governor Nasution and BI officials responsible for special bank investigation with James Agee, COP of the ELIPS project, AUSAID and the newly established Financial Intelligent Unit (PPATK) headed by Yunus Hussein, head of the legal department of BI. The SIU has looked into numerous suspicious transactions and has detected at least 3 cases of terrorist-related financial transactions. Bill Wallace of PEG has helped to coordinate this work with counterparts at MOF. For discussion of the issues see the Quarterly Report of James Agee of ELIPS.
- Assisted BI counterparts in preparing a report on reform of the international financial infrastructure titled "*Reinventing The Bretton Woods Institutions: A Developing Country Perspective On New Financial Architecture*."

**Workplan Activity 4: Assist Bank Indonesia Publications Programs:** *assist counterparts in Bank Indonesia in improving their English Publications (including electronic media) on economic and monetary policy affairs.*

### **Accomplishments:**

- Assisted counterparts with editing the English version of Bank Indonesia's Annual Report for 2001.
- Assisted counterparts in preparing material to be posted on a website dedicated to foreign investment providing information on the Indonesian economy for the August launch. Also assisted in periodic updates of the information on the website.

### **Additional Activity-Ministry of Finance and Ministry of Industry and Trade**

- At the instruction of Minister of Industry and Trade, Rini Soewand, prepared a memo for DG Foreign Trade on Preshipment Inspection to accompany a copy of my report (prepared in Q3, 2002) on that topic.
- Prepared a technical report: *Indonesia's Economic Performance and the Global Economic Situation: Prospects for Recovery*.
- At the Minister's request, a report titled *The Competitiveness of Indonesian Non-Oil Products in Major Markets: Market Shares in the United States and Japan* was completed with the help of a short-term consultant, Peter Minor.

## Partnership for Economic Growth (PEG)

The report covers the top 50 export products of Indonesia in each major market through the fourth quarter of 2001. The report compares Indonesian products growth and market share in 2001 compared with 2000 against the 15 major competitors in the US and Japanese markets. The report provides information on trade flows at a detailed commodity level making use of on-line import data from official sources in the US and Japan.

- A study of the Textile and Textile Products (TTP) industry was conducted with David Ray. A summary report on findings and recommendations was prepared for the relevant units of the MoIT. A more complete report is being worked upon with the help of short-term consultant Pete Minor and will be completed in the first half of 2002. In particular, the report will examine the performance of Indonesian TTP in the US market, using detailed information on quotas, tariff protection and trends in market share between 1999 and the present. The study will incorporate the entry of China into the WTO and the formation of various preferential trade agreements into the analysis and will serve as the basis for further work with MoIT and the private sector textile producers in Indonesia.
- As a follow-up to the previous quarter's work on pre-shipment inspection (PSI) of imports, work was undertaken on the problem of customs reform. A more detailed memorandum was prepared on PSI (*A Note on Pre-Shipment Inspection of Imports*) in February and was discussed with the Minister of Finance. A memorandum on the broader topic of reform of the customs titled *Reform of the Indonesian Customs Service* was prepared for the Minister of Finance. Meetings and discussions between the PEG team and the IMF team on customs reform and PSI amongst other tax and budget issues were held. Extensive discussions and correspondence with private sector individuals, SGS and PT Sucofindo staff, with the Director of Compliance and Facilitation of the World Customs Organization (WCO) and with Indonesian academics and government officials have been undertaken in preparing the memorandum. Finally, a technical report reviewing a detailed study undertaken by the Commonwealth Secretariat titled *Preshipment Inspection: Clarification of Misconceptions, Lessons from Experience and Future Directions for Increasing Government Revenue and Facilitating International Trade* was prepared and was distributed to the Minister of Finance and the Minister of Industry and Trade. The Minister of Trade requested the report be provided to her Director-General of Foreign Trade for action. A memo was prepared and the report was provided. At present, PSI is under scrutiny by the GOI as a possible stop-gap until customs reform can be comprehensively undertaken.

## Partnership for Economic Growth (PEG)

### Summary of Main Deliverables and Policy Impact Assessment of BI Advisor's Work During Calendar Year 2002

- **Work Plan Deliverables** included 3 technical reports relating to research collaboration with counterparts and research relating to policy objectives of lower inflation and a stable exchange rate, improved international competitiveness supported by reform efforts, improved debt position, and more rapid productivity growth. The work plan goals were exceeded in terms of deliverables (deliverables here are substantive reports or publications and exclude short policy memos and routine quarterly reports such as those on external trade performance and inflation):
  1. *The Competitiveness of Indonesian Non-Oil Products in Major Markets: Market Shares in the United States and Japan*, PEG Technical Report, completed March 11, 2002.
  2. *The Debt Trap and Monetary-Fiscal Policy in Indonesia: The Gathering Storm?* Paper presented at the 8<sup>th</sup> Convention of the East Asian Economic Association, Kuala Lumpur, November 4-5, 2002. A short version of the original paper was published in: *Jurnal Ekonomi dan Pembangunan*, Vol. X (1) 2002, The Indonesian Institute of Sciences (P2E-LIPI): 1-22. (co-authored by Anwar Nasution).
  3. *Indonesia's Textile and Apparel Industry: Meeting the Challenges of the Changing International Trade Environment*, PEG Technical Report, completed July 2002. (co-authored by David J. Ray and Peter J. Minor).
  4. *Preshipment Inspection: Clarification of Misconceptions, Lessons from Experience and Future Directions for Increasing Government Revenue and Facilitating International Trade*, PEG Report reviewing technical issues involved in PSI prepared for Minister of Finance, September 16, 2002.
- **Policy Impacts of deliverables and policy reform achievements (trade policy accomplishments resulting from trade-related work are summarized in progress reports of MOIT advisors, herein the focus is on BI/MOF related accomplishments):**
  1. *Progress towards financial stability*: in addition to success in reducing inflation through monetary stability and exchange rate stability, a series of memos on issues concerning the financial system safety net (deposit insurance, central bank transparency and independence, etc.) led to solid progress in the pursuit of overall financial system stability and allowed USAID to provide technical assistance that is vital to restoration of investment and economic growth. Among the key wins is the decision to move gradually away from the blanket guarantee towards a limited coverage deposit insurance system (the BI advisor coordinated this work with other key donors and the Bearing Point Project).
  2. *Progress in the fight against terrorist-related finance and money laundering*: This work resulted in significant achievements in terms of formation of a financial intelligence unit (PPATK) and in serious efforts to combat money-laundering and terror-related finance in Indonesia. The BI advisor coordinated



## Partnership for Economic Growth (PEG)

this work with the ELIPS Project, USAID and US Embassy and other major donors.

3. *Progress in customs reform:* This work was helpful in moving MOF and MOIT in recognizing that serious efforts were needed to curb rampant administrative smuggling. Major obstacles to reform were overcome and have led to potential policy breakthroughs in improved customs security and performance. The BI advisor coordinated this work with PEG advisors in MOF and BAPPENAS.

# Partnership for Economic Growth (PEG)

## Individual Annual Progress Report

*Dr. Thomas A. Timberg  
Small Scale Credit Adviser,  
Bank of Indonesia.*

*Reporting Period : 2002*

Since the Adviser's temporary departure was ordered in late October he has been doing his assignment from Washington, DC which entailed revisions in the Workplan as noted in an attached document.

Since the activities of the Adviser are directed toward four categories of clients with somewhat different objectives in each case, they will be given separately below, as follows, for:

The Credit Directorate of Bank Indonesia (DKr), now the Credit Bureau, concerned now with overall credit policy and promoting lending to social priority sectors.

The Rural Banking Directorate of Bank Indonesia (DBPR) which regulates and supervises the Rural Banks (BPR).

The State Ministry for Cooperatives and Small Scale Enterprise (Mennegkop) responsible for Small and Medium Enterprise (SME).

A miscellaneous group – at present involving Jakarta Initiative, the Working Group on SME policy, various parts of Bank Indonesia and USAID itself.

In distinction to previous annual reports this one experiments with a new format as follows: A summary of activities in terms of USAID objectives is followed by a quick reference to the four points of the present Work Plan and how the activities respond to those points. The USAID objective concerned is the increase in volume of SME credit (one of the program indicators) as part of the achievement of Broad Based Economic Growth through Increased Access to Economic Opportunity.

The development of small and microfinance (SME) in Indonesia proceeds on two tracks as follows:

1. The development and expansion of SME oriented financial institutions of various sorts -- BPR, Credit Reference Bureaus, commercial banks, savings and loan cooperatives etc. The government's role is to develop a conducive regulatory structure, but because of inherent market failures in the regulated financial sector it frequently has to take a connected promotional role.

Thus the adviser is involved in various efforts to strengthen categories of financial institutions and financial sector supervision.

CREDIT REFERENCE BUREAU – The creation of a credit reference bureau like Dun and Bradstreet in the United States is agreed to be a useful tool for facilitating bank, especially large bank, lending to SME. Efforts have been ongoing for more than a year to put such a

## Partnership for Economic Growth (PEG)

bureau in place, either based on or in addition to the present Debtor Information System of Bank Indonesia. The adviser has been involved along with designated Asian Development Bank Advisers in meetings to get the process of formation of this Bureau accelerated.

RATING AGENCY FOR BPR – to permit them to borrow more easily on financial markets. The adviser helped arrange a pilot rating which will be the core of a national seminar to launch such an agency in March.

SUPERVISION AND DEVELOPMENT OF SAVINGS AND LOAN COOPERATIVES – After a collaborative study presented to a national seminar, the regency of Jember in East Java volunteered itself as the site of a pilot effort. The kick off meeting for this effort is scheduled in March 2003.

EXTERNAL AUDIT OF BPR – The Task Force on External Audit of BPR (composed of representatives of the BPR, the accounting profession and the bank supervisors) conducted a contest which generated 91 case studies of the difficulties encountered in on site auditing of BPR. The better cases are being edited for use as a training material. Assistance is being given in facilitating cooperation between the CGAP specialist on external audit of MFI and the Task Force.

INSTITUTION BUILDING INITIATIVES – A large number of these are underway with the adviser's participation as follows:

A study of the actual systems and procedures of the best BPR to serve as a benchmark for proposed "best practices" has been completed, but some of the data clearly require a re-survey in certain cases, and that resurvey is proceeding..

Collaboration with ACDI/VOCA, the Asia Foundation, PINBUK, and the World Congress of Credit Unions were all oriented at designing or implementing new microfinance initiatives with USAID support. In particular, Asia Foundation is involved in a series of diagnostic studies to guide its efforts to restructure the microfinance sector in West Java and elsewhere. ACDI/VOCA is launching a Subsector Analysis of the Poultry Subsector in West Java to guide its efforts in that sector and microenterprise development. PINBUK, the institution which supports Islamic Savings and Loan Cooperatives is broadening its international network through contacts with the World Congress, the Consultative Group Against Poverty etc.

2. The overall policy for SME and SME Finance continue to be highly contested. While the former banking regulations which mandated specific lending quotas and provided subsidized government funds through the Central Bank have been removed there are strong pressures to restore the same evils in new forms. In addition, because of continuing pressure for subsidized credit lines and indirect subsidization through new institutions, there is now a public move, with support in some sections of the bureaucracy, to pass a Credit Law which would require a high level of directed credit as well as impose numerous anti-market restrictions on all credit institutions.

USAID/PEG is partially supporting a series of seminars, with Bank Indonesia, that bring regional bankers, NGOs, and government officials together to consider the actual obstacles to greater market based SME lending.

## Partnership for Economic Growth (PEG)

Plans for cooperation with Bank Indonesia and MennegKop over the next few years were explored. A resulting letter of request from Bank Indonesia is now expected. Of especial importance, were several meetings at which potential points for cooperation with the newly created Bureau Shariah of Bank Indonesia, responsible for the supervision of Shariah institutions was discussed. This cooperation is designed to strengthen the financial system both in general and in the provision of financial services for SME.

Two specific initiatives have been undertaken and numerous consultations on specific issues. The initiatives are a plan for the involvement of Professor Richard Meyer of Ohio State University, an expert on development and rural finance but not Islamic finance in reviewing their research plans and sponsorship of a seminar on comparative approaches to the supervision of Shariah institutions.

**Workplan Activity 1:** *To respond to short-term Bank Indonesia (BI) crisis related requests for policy analysis in the areas of small and medium enterprises (SME) and alternative financial institutions (AFI), to include reviewing Indonesia's credit policies toward SMEs and suggesting policy improvements and alternatives that will promote broad-based economic growth in Indonesia.*

### **Progress to Date:**

Most of the above listed activity could be viewed under this rubric since they respond to specific counterpart requests. Status of Deliverables: Publications and memoranda as indicated below.

Policy memoranda were provided on various issues to Deputy Governors Anwar Nasution, and Maman Soemantri -- as well as material and briefings of Bank Indonesia staff, various donors and USAID contractors. Subjects included comparative experience with credit reference bureaus, German banking experience, rating bureaus for BPR, the data issued by Bank Indonesia on poverty lending, and various proposed legislation, and the possibility of foreign equity ownership of BPR.

Requests were received concerning Indonesian participation in the World Microcredit Summit, Deposit Guarantees, HRD for bank supervision, a scheduled MennegKop Conference on Business Development Services in Bali, items connected with relations with CGAP including initiatives on external audit of microfinance institutions. Meetings were held with USAID officials concerning present and future programs. Sessions were also held with several Washington based World Bank and USAID officials concerned with small and microfinance.

Discussions continued with various parties on the potential for the mediation and resolution of Small Business Debts.

## Partnership for Economic Growth (PEG)

A focus group on "support for SME Development: was held by Bank Indonesia with five banks, four State Owned Enterprises, and four Ministries in which the Adviser participated.

Discussions continued with various parties on the potential for the mediation and resolution of Small Business Debts.

The adviser continued to facilitate Peter Ferguson's work on Human Resource Needs of Bank Indonesia for Bank Supervision. Mr. Ferguson visited the country during the reporting period to meet with the concerned governors of Bank Indonesia and discussion is now ongoing about future plans for him.

**Workplan Activity 2:** *To conduct surveys of financial institutions and SMEs to verify (and correct where necessary), the available data, to include:*

- Undertake surveys of financial institutions and small and medium enterprises, including secular and Islamic cooperatives, commercial banks, BPR (Rural Banks), as well as client SME enterprises and other SMEs.
- Correlating and integrating survey findings with those of actors, e.g. USAID, other Indonesian government agencies, the ADB, and examine various microfinance plans.

Progress to Date: Though many activities involve such studies -- the most important not yet covered are the following:

The Study of the Training Needs for SME Promotion of Local Level Officials. Study Completed. Recommendations being implemented by Mennegkop.

Studies of the Situation of Small, Medium, and Microcredit Flows in West Kalimantan , West Java, North Sulawesi, and Taksimalaya finished and posted on web as background for policy makers.

The Study of Best Practices for BPR, is back on track and the final draft is still to be submitted.

The Study of Partnership between Large and Small Business. Somewhat belatedly, largely due to USAID constraints, this study is completed and a national seminar on it will be organized.

Undertake surveys of financial institutions and small and medium enterprises, including secular and Islamic cooperatives, commercial banks, BPR (Rural Banks), as well as client SME enterprises and other SMEs. Correlating and integrating survey findings with those of actors, e.g. USAID, other Indonesian government agencies, the ADB, and examine various microfinance plans.

## Partnership for Economic Growth (PEG)

A successful seminar for Bank Indonesia and commercial bankers on Palm Oil Lending by E. G. Togu Manurung of the Environmental Policy and Institutional Strengthening IQC was held. Well attended. The bankers agreed that palm oil lending involved various problems – both in terms of environmental impact and commercial sustainability, though they felt there was political compulsion to continue it. A good deal of the incremental small lending in the banking system has been for palm oil plantations.

Proposed seminars on agricultural finance and subsector analysis for Bank Indonesia staff have been put on hold. These are high priority areas for the development of banking system policy.

*Status of Deliverables: As shown in attachments.*

**Workplan Activity 3:** *To assist in developing networks between commercial banks and alternative financial institutions by analyzing the current condition of AFI and SME in Indonesia, to include:*

- examining issues relating to the networking of various financial institutions; special attention must be given to Dabenas and Perbarindo, as proposed bases for networking the pooling of funds, and other linkage possibilities between AFI and mainstream financial institutions, such as the USAID proposed Microlinks project.
- discussing proposed and potential SME initiatives, with particular attention to Islamic banking institutions and their potential in Indonesia.
- Discussing and negotiating results of these analyses with other actors to encourage a consensus on action, with additional follow-through activity as necessary.

### **Progress to Date:**

This activity has finally taken off and bodies to undertake "pooling" of excess BPR funds are in the process of organization in several provinces under the auspices of the PerBarindo, the association of BPR owners. Meanwhile, BPR are also accessing funds and business from PT Madani and the Pegadaian as well as other public sector sources.

*Status of Deliverables: As noted above.*

**Workplan Activity 4:** *To provide technical assistance in assessing alternative ways to handle SME functions, given different assumptions about organizational structure to BI.*

## Partnership for Economic Growth (PEG)

### **Progress to Date:**

Almost each activity noted above falls into this category.

***Status of Deliverables:** These are the training events described in the previous section, and in various attached memoranda.*

The second session of the In House Course on SME Finance Research Methodology finished with a positive audience evaluation in Anyer on March 18-20. The participants, perhaps because of the bad weather, ignored the recreational possibilities and spent the evenings until 11 PM at their studies and began the next morning on class exercises and case studies. They are masochistic enough to ask for more, and this is under discussion.

The In Kind Grant Seminar for Intending Investors in New BPR was attended by 300 paying participants in Malang. (300,000 rps each) on March 9.

The PINBUK IN Kind Grant Seminar on the Regulation of Bait Maal wa Tamwil, Islamic Savings and Loan Cooperatives was heavily intended and resulted in a commitment to develop an appropriate regulatory framework as well as further plans for collaboration with USAID treated elsewhere in this report.

Assistance to Bank Indonesia with sending students for training to the US.

Organization of proposed seminar on Agricultural Finance at Bank Indonesia.

Work with Asia Foundation and Bank Indonesia to launch Asia Foundation assistance to BPRs in BOTABEK. Assistance to ACDI/VOCA with their microcredit program in West Java.

Correspondence continues on scheduling a specially tailored course on SME finance and promotion for Bank Indonesia staff at Monash University in Melbourne, drawing on the expertise of Robert Rice, former PEG adviser, and Michael Skully, a leading SME financier expert.

With the Adviser's involvement the Asia Foundation is supporting diagnostic studies on restructuring possibilities for JABOTABEK area BPR. Five diagnostic studies were completed in early 2003.

**Additional Deliverables:** The last extension of the PEG Contract specified additional deliverables as follows:

Though these deliverables are not finally due until June 30, 2003 considerable progress has already been made on them.

## Partnership for Economic Growth (PEG)

1. A final report addressing research results is due in June.
2. A National Summary Seminar whose organization may now not be possible because of the evacuations.
3. Three Policy Memoranda and five Seminar Presentations:
  - a. Five policy memoranda are noted in the publications list appended to this report.
  - b. A seminar presentation was made to the National Seminar on Savings and Loan Cooperatives, which is posted on the Pegasus website, and another to the Jakarta Branch of the Ikatan Sarjana Ekonomi Indonesia, which is included in one report on the Pegasus website and in another awaiting publication. Others have been postponed due to the ordered departure of the Advisor.
4. Five Notulen from seminars in which the Adviser is involved. There have been more than five and several will be included in the final report.
5. Three pieces of legislation with which the adviser is involved. These would include the draft Microfinance Institutions Law, the Ministerial Order resulting from the Working Group on the Credit Information Bureau, and the new regulations on licensing of BPR.

### ***Publications Etc.***

- Small Credit in Taksimalaya, Thomas A. Timberg and Irfan Abdullah, Spring 2002.
- Small Credit in North Sulawesi, Thomas A. Timberg and Irfan Abdullah, Spring 2002
- "Appropriate Macropolicy for SME," Thomas A. Timberg, Spring 2002. Policy Memo)
- Comments on Speech by Rudjito to USAID Retreat, Spring 2002 (Policy Memo)
- Comments on North Sulawesi Savings and Loan Cooperative Study, Spring 2002.
- Small Credit in West Kalimantan, Thomas A. Timberg and Irfan Abdullah, Winter 2002
- Small Credit in West Java, Thomas A. Timberg and Irfan Abdullah, Winter 2002
- Savings and Loan Cooperatives, Thomas A. Timberg
- Memo to Ms. Yunus Sari on Debt Restructuring, Thomas A. Timberg (Policy Memo)
- Expanding SME Credit In Indonesia, Thomas A. Timberg (Policy Memo)
- Memo on Millennium Challenge Account (Policy Memo)
- Revised Workplan for Evacuation

### **SEMINARS ATTENDED**



## Partnership for Economic Growth (PEG)

1. Microfinance workshop World Bank , Jakarta, February 11-12,2002 -- Notulen in file.
2. The 5th Network Meeting Ukabima, Bandung, February 18-21,2002, no notulen in file.
3. BMT Supervision Jakarta, March 13, 2002 Notulen in file.
4. Saving and Loan Supervision, Jakarta, March 18, 2002 Notulen in file.
5. Potential Investor for BPR, Makassar, August 30,2002. Notulen not yet in file.
6. Saving and Loan Supervision II , Jakarta, September 30,2002. Notulen in file.
7. Seminars on S&L Cooperatives in region (Lampung & Manado). No Notulen.
8. Credit Bureau Seminar on SME Lending. No Notulen in file.

# Partnership for Economic Growth (PEG)

## Individual Annual Progress Report

*Idris F. Sulaiman, PhD*

*Reporting Period: 2002*

*Information Communication Technology (ICT) Advisor and Economist,  
Indonesian ICT (inter-ministerial) Coordinating Team (IICT – TKTI),  
under the State Ministry of Communications & Information (MoCI – Meneg KomInfo)*

Dr. Sulaiman started his long-term assignment with PEG on July 9, 2001 and his contract was renewed on July 1, 2002.

### Introduction

In July 2001, the incoming Megawati Administration established the State Ministry for Information and Communications (*Meneg Kominfo* - Presidential Decree No. 101/2001) with a specific mandate to cover ICT content/applications and infrastructure development, related HRD training, information dissemination as well as the broadcasting sectors. By February 2002, the selection of senior staff members and deputy ministers in the above respective areas of responsibility was completed. During the same month, after a meeting of officials from USAID-ECG and Nathan-Checchi Associates with the Minister and Secretary to the Minister, Dr. Sulaiman was appointed as USAID ICT Advisor to MoCI and was provided an office space at the Ministry. This development allowed him to interact more closely with the Ministry while at the same time continuing to maintain and improve his relationships with the ICT industry associations.

While Dr. Sulaiman works closely with Professor J. B. Kristiadi, the Secretary to the Ministry, whenever directed by the latter or Minister, he would conduct activities and provide a supporting role to the deputy ministers, each in charge of the following areas:

- Communication & Information Network Infrastructure Division (Mr. C. Ahmadjayadi),
- Communication Facility Development Division (Dr. Widi Adnyana),
- Human Resources of Communication and Information Division (Ms. Ir. Rsy. Kusumastuti),
- Information Utilization Division (Mr. Lalu Rusmadi, SH),
- ICT/Telematics Content Development Division (Dr. Ir. Ashwin S. MSc).

In the first semester of 2002, Dr. Sulaiman focused his efforts on establishing a working relationship with the new DMs. In particular, he was directed to assist Ms. Kusumastuti with training Echelon II and III officials by providing lectures on ICT public policy issues, comparative national ICT strategies, the development of private sector outsourcing opportunities in government applications, national e-government strategies as well as familiarizing them with the Indonesian national ICT Action Plan and Guidelines (Presidential Decree No.6/April 2001 - an important "roadmap" document which was painstakingly put together for several months with the assistance of several donor organizations (including USAID/PEG).

## Partnership for Economic Growth (PEG)

Dr. Sulaiman provided input to the work of the inter-agency "E-Government Task Force" (with Dr. Ashwin and its secretariat at MoCI) and to the discussion of the development of an information infrastructure and ICT security framework (National Information System, Sisfonas with Mr. Cahyana). He also provided input into various activities by MoCI that took place during the year such as the launch of the Indonesian Government Web Portal ([www.indonesia.go.id](http://www.indonesia.go.id)), the meeting with the Donor ICT Group on Indonesia (May) and the launch of an ICT (Bubu) Awards.

In the second semester of 2002, he commenced work on IT and networks security issues as part of business facilitation to create a better investment climate in ICT industries. This involved attending several international conferences and then writing concept papers, organizing seminars for the purpose of disseminating information on ICT security issues. Other activities that relates to his ICT work in 2002 were: organizing the establishment of an IT security forum for the private sector ("id-FIRST"), conducting awareness raising activities on improving ICT use by SMEs, supporting the ISP and the newly-created Federation of IT Industry Associations (consists of five associations) in organizing seminars (on VoIP and on wireless solutions) to support efforts to bridge the digital divide, to distribute information about Indonesian ICT and other economic issues to US and other interests through direct contact (for example to US Commercial Office, Rotary and AmCham) as well as through PEG website in a capacity as webmaster.

**Work Plan Activity 1: Coordinator of ICT-related Events: To organize and arrange workshops, conferences or other special events on behalf of USAID and implemented by PEG as requested.**

### **Major Achievements:**

- Assisted with the planning of and provided a presentation at the "Roadmap to e-Government in Indonesia" seminar organized by MoCI and the World Bank.
- Arranged the participation of MoCI officials as well as NGO and industry representatives at international conferences on e-government issues in Singapore and the United States. Presented several lectures on e-government and ICT security 'best practice' in the United States and other countries at MoCI and other seminars in Indonesia as well as overseas.
- Organized (and provided presentations at) two separate jointly-sponsored conferences (with the ISP Association) on "VoIP and Public Internet Conference" and on "Wireless Solutions to Accelerate Regional Development" as means to bridge the digital divide and to accelerate the development of Multi-purpose Tele-Centers (MTCs) and deployment of ICT by SMEs, educational and health institutions.
- Arranged several meetings and provided input to important ICT awareness raising and research efforts related to ICT, privacy/public access and e-commerce issues such as "Electronic Financial System and the Development of Cross Border Finance in five APEC countries including Indonesia" (APEC-Australian National University), electronic authentication and certification authority issues (University of Indonesia, MoIT), issues relating to Indonesia's Draft of Freedom of Information Act.

### **The year ahead:**

## Partnership for Economic Growth (PEG)

- To organize and arrange workshops, conferences or other special events on behalf of USAID and implemented by PEG as requested. However, more focus will be placed on three themes:
- Business facilitation to generate better investment climate in ICT industries specifically those which improve IT and networks (ICT) security environment.
- Development of Multipurpose Tele-Centers (MTCs) in particular reference to improve ICT use by Small Medium Enterprise (SMEs), health and educational institutions.
- Review of the ICT Action Plan (and other national ICT strategies)

### **Work Plan Activity 2: USAID ICT Working Group: Advise and assist the group and on development of USAID Strategy for ICT Development in Indonesia.**

#### **Major Achievements:**

- Performed the role as discussion group leader and made a presentation to the retreat participants on “Access to Information Content Development & to Information Infrastructure Provision as key tools to bridge the Digital Divide in Indonesia” at the USAID-ECG Retreat, Purwakarta; provided input to several prior preparatory discussion groups with the objective of awareness raising about the importance of emphasizing that ICT is a cross-cutting theme on how to order priority on any development policy issues (because it can deliver faster, cheaper and better information services) and to plan activities during the year. The retreat reviewed USAID-ECG’s ICT strategy and planned how programs and grantees under ECG can work together better to achieve these priorities. Coordinated and proposed a recommendation for the ICT strategy for ECG.
- Assisted USAID/Indonesia in the process of refining its approach to ICT policy by providing input on the development of ICT policy and issues at MoCI and within the private sector to the USAID ICT Working Group led by Economic Growth Team Leader, Dr. Paul Deuster. Supported Dr. Deuster in his work with the World Bank Private Sector Coordinator, Mr. Bernard Drum, who has played a critical role as coordinator of joint activities with other donor agencies in the Donor ICT Group on Indonesia.
- At the request of the Deputy Leader of the Economic Growth Team, Mr. Bruno Cornelio, Dr. Sulaiman began work on ICT/cyber-security and cybercrime issues as part of business and investment facilitation in implementing the ICT Action Plan. This activity is conducted in the light of the released draft "US National Cybersecurity Strategy to Secure Cyberspace (released in September 2002) and was later made official by the US President (January 2003). The strategy is to be implemented under the direction of the newly-created Department of Homeland Security.
- Attended and gave a presentation at the USAID Asia & Near East Bureau Regional ICT Coordinators Workshop, Dead Sea, Jordan (Oct 1-4, 2002). Supported key recommendation from the Workshop that USAID/Indonesia and its ICT Working Group should consider incorporating the following:
  - (i) that the Mission surveys all of its activities/programs with significant ICT-content and coordinates them across all strategic objectives. The key assumption is that ICTs are

## Partnership for Economic Growth (PEG)

enablers and facilitators that can drive bigger and broader objectives and, therefore, ICT is "cross-cutting," not a single, stand alone program.

(ii) that digital/ICT security concerns have been growing in recent years, thus ICT Mission managers should incorporate key cyber security ideas from the above National Security Strategy.

(iii) that Jordan REACH ICT program should be studied closely for its theme of 'sustainability' in bridging the digital divide with a strong emphasis on the private sector role can be highly relevant to the Indonesian context. In particular, there are also lessons learned about from the Jordanian experience or process in formulating their national ICT Action Plan. The success that Jordan and similar countries (as shown at the 'Implementing E-Government' Conference sponsored by US-State Dept/US-AID/TDA) have had in attracting foreign investment and in staging international ICT events to attract international investment in ICT also suggests that FDI-focused strategies could be particularly relevant to Indonesia's current situation of continuing negative flows of foreign investment.

### **The year ahead:**

- On-going lobbying of MoCI, USAID/Indonesia and other donor organization officials on the three stated objectives above of achieving mainstreaming of ICT ("ICT is a cross-cutting theme"), cybersecurity and business facilitation in bridging the digital divide as outlined above.

**Work Plan Activity 3: Further development of Indonesian ICT Action Plan: Advise and assist MoCI in fulfilling its responsibilities as the GOI's advisory and monitoring agency for the development and implementation of the ICT Action Plan.**

### **Major Achievements:**

- Organized the invitation list, agenda and participated as coordinator in the meeting of the Donor ICT Group on Indonesia on the ICT Action Plan and the discussions on e-government programs and pilot projects (proposed by the World Bank consultants - BAH/Ipteknet), participated in the preparatory and post-event meetings with MoCI and World Bank consultants to strengthen the IICT/TKTI and on plans to review of the Plan.
- Providing information to the newly established MoCI about the ICT Action Plan, conducting lobbying efforts for a participatory process in reviewing the Plan by all major stake holders especially representatives from the ICT industry associations and NGOs. On one major component of the Plan which is the development of government IT applications, Dr Sulaiman has emphasized the importance of planning (and funding) change management processes and HRD activities in implementing e-government measures (rather than simply placing importance in putting infrastructure in place) to make e-government program sustainable and for the need of consultation with the private sector from the design stage of all government applications for e-procurement.
- Arranged the participation of MoCI officials to attend international conferences on e-government issues as stated in Work Activity 1 above.

## Partnership for Economic Growth (PEG)

- Presented several lectures on 'best practice' in ICT national planning and in e-government/governance reform to MoCI and other agency officials as stated in Work Activity 1 above.
- Obtain information as input to the Plan from international conferences (USAID ICT Coordinators' Conference, Jordan, E-Government and CommunicAsia 2002 conferences in Singapore and Rand-Europe/DDSI conference, Brussels) and from in-country visits to officials in other countries (Belgium, Japan, Jordan, Korea, Netherlands, Singapore and Russia) on 'best practice' on national ICT strategy policy formulation and e-Government for MoCI and the private sector.
- Assisted MoCI in efforts toward the adoption of an "umbrella" set of Cyberlaws (RUU-IKTE) covering ICT use, e-signature/e-transaction and computer crimes provisions to support e-commerce, e-health, e-learning and e-government activities in Indonesia by organizing meetings of officials with technical advisors from ELIPS (USAID-funded) Project and others supporting ELIPS conference (on Electronic Evidence).
- Work with consultants for and from the World Bank, JICA, CIDA, Swiss Contact and GTZ in developing the agenda for the Donor Consultative Group (DCG) on Indonesian ICT. Dr. Sulaiman successfully lobbied for Mr. Allan Maclean and his team (consultants to strengthen the IICT/TKTI) for the IICT/MoCI to maintain a continued focus on reviewing the National ICT Action Plan.

### **The year ahead:**

- To continue to make the case for the review of the ICT Action Plan through a participatory process involving all key stakeholders in the ICT development in Indonesia.
- Continue to develop awareness for key private sector leaders, GoI officials and legislators on 'best practice' of e-government and ICT national strategy and on the importance of policy issues. In particular on the need for an independent regulatory agency and for shaping ICT policy and legal framework towards global 'best practice'. Facilitating public dialogue and awareness campaigns on the importance of a truly independent telecommunications regulatory body for not just the telecommunications industry but also for the 'downstream' ICT sectors.
- Develop the case for competitive bidding for e-procurement and provide 'best practice' and experiences of the United States and leading developing countries.
- Provide support to coordinate the realization of the legal framework for e-commerce and cybersecurity (with ELIPS II project).
- Assist with the cooperation work with other donor agencies and ICT strategies of regional associations (such as e-ASEAN, APECTEL and e-APEC, AFACT and others).

## Partnership for Economic Growth (PEG)

**Work Plan Activity 4: Development of Community Tele-Center (CTCs) and Multi-purpose Tele-Centers (MTCs): Development of Telecenters in Indonesia: Advise and assist the MoCI/IICT in fulfilling its responsibilities as the GOI's body for the development of Phone and Internet Kiosks (Wartels, Warnets) and Community Telecenters in Indonesia. Work with the relevant other GoI agencies and the private sector on these issues.**

### **Major Achievements:**

- Organized and provided presentations at events (conferences on "Voice over Internet Protocol (VoIP) and Public Internet", Jakarta and on "Wireless as a Speedy Solution for the Development of IT Networks to support Regional Development Conference, Jogjakarta) to disseminate information on the principal means to bridge the digital divide, that is to promote tools to accelerate the development of the conversion of Wartels and Warnets to become MTCs. If the telecommunication regulatory constraints are freed up, both VoIP and wireless local loop (WLL) and microwave over 2.4 GHz frequency technologies are means to unleash the next big wave of technological and organizational innovation in bridging the digital divide and will increasingly be a major source of revenue earners for Wartel, Warnets and MTCs in Indonesia.
- Disseminate information from international and national conferences (Digital Divide Blueprint, DCSG-APECTEL 27, Moscow, August 2002) on 'best practice' MTC development models for MoCI and representatives of the private sector (MASTEL and FITI) in this field.
- Completed the translation of the US National Telephone Cooperative Association (NTCA) publication on the Lessons for the Private Sector's Participation in MTC development as part of the effort to put together the "MTC Handbook for Indonesia." Consulted with MASTEL (Infocom Society) and independent experts in the field on how and when to organize an event on MTC development.
- To continue to disseminate information to private sector organizations (APJII, MASTEL, Kampung Cyber and others), MoCI and UNDP-Indonesia (ICT for Development Program) background material to facilitate the conversion of Wartels-Warnets to become the MTCs. Examples of such material are: a) MTC 'best practice' literature, website and developments update references on PEG Website and b) coordinate and contribute articles on MTCs.
- Policy formulation and coordination work on leveraging the use of ICTs by SMEs to improve efficiency, productivity, access to market, technology, capital and business services assistance in Indonesia by the development of applications and linkages with local and foreign partners and in coordination with the government and private sector associations. Activities include: a) consensus-building on methods to improve ICT use by SMEs with other USAID partners (part of a cross-cutting strategy); b) identification of technical assistance to industry associations.

## Partnership for Economic Growth (PEG)

### The year ahead:

- Finalizing additional material to the translated NTCA "Handbook" and plan to disseminate CD/print versions with website hosting. Organize its launch with a seminar (tentatively titled) "Mindsets and Means to Bridge the Digital Divide" with substantial contributions from ICT industry associations and featuring breakthrough technologies for private sector sponsors. Some examples of technology means are the Simputer, WorldSpace digital radio and wireless LL solutions. Examples of content and financial solutions to bridge the digital divide are Hybrid-Nimble Financing Strategies, Grameen Bank/Phone, MIT Media Labs solutions (Mumbai, India), promotion of the Indonesian SME Accounting Office software (Balicamp/WB Project), open software (Linux-based software Indonesian User Group) and content/application development workshops for the Simputer, Guess Worker Banking MTC (CIDA, Thailand Project/Yuan/TW-MY-TH-PH-Apectel27) and other ICT products and services which are low cost and are specifically designed to cater to poor urban, rural and remote settings (VConf/Real-speakers: G. Kirkman, CID, Harvard University/C.W. Smith, KSG/HU, M. Best, MIT-MLA, R. Schware, Informatics/WB, Behdad/MC, ITU, AP-Bangkok, FMarsh/NZ, EricOhmae/IndCan-K-Net, M.Baker/AOEMA, Masduki/Tel-MY/eHealth, JMoore/Zipp,WA-US, J.Speight/TUANZ, A.Tubtiang/TOT-TH, K.Imai/MPHPT-JP, MHanafiah/iDA-SG, Phong/DGPT.VN, D.Foote/USAID-Dotcom-DavidReed/WiFiGuru).
- Continue to disseminate practical information and studies on the development of telecenters in other developing countries which might be relevant to Indonesia; the links of such collected works have been posted on PEG Website.

**Work Plan Activity 5: Development of IICT's foreign investment policy in ICT: Advise and assist the IICT in fulfilling its responsibilities as the GOI's body to attract FDI in ICT and coordinate with ICT-related US companies on FDI related issues. This business work involves providing of advice and assistance to the private sector and IICT/MoCI in developing comprehensive policies and capacity building in organizations that can generate better investment climate in ICT industries.**

### Major Achievements:

- Disseminate information from international conferences on countering cybercrime, ICT security/CERT issues and strategic CIP policy formulation as well as provide briefings to business leaders, MoCI and other agency officials.
- Led and organized the establishment of the first (private-sector driven) Indonesian cybersecurity taskforce and forum by providing suggestions for its agenda and for the list of invitees, made several formal presentations and contributed significant input to discussions in several preparatory meetings ("Forum for ICT Response & Security Teams (FIRST)", SECURE-INDONESIA-FIRST.OR.ID or short hand "id-FIRST"). This was achieved by bringing together a number of other industry associations that are under the Federation of IT Industries (FTII) such as AWARI (internet kiosks), ASPILUKI (IT



## Partnership for Economic Growth (PEG)

software development), APKOMINDO (hardware vendor) as well as others outside FTII such as AKKI (credit card), APWI (wartel/phone-kiosk), ICT Watch and Indonesia Infocism (formerly Internet) Business Community (I2BC).

- Made the case for a greater focus on cybercrime issues at MoCI, for the establishment of the Indonesian national critical infrastructure protection coordinating team and for the development of the Indonesia's Cybersecurity Strategy (or "Roadmap") paper. As a result, the Minister held a special meeting to discuss cybersecurity issues and instructed one of his Deputies to work with the ICT Coordination Team on the above cybersecurity team and strategy.
- Implicit to creating a better investment climate is the development of e-commerce/e-signature applications and their implementation, including the development of an electronic authentication/e-signature framework as well as the security aspects of their networks. In the area of electronic authentication, Dr. Sulaiman assisted the IICT/TKTI and World Bank consultants to organize discussions and disseminate the report entitled "Establishment of a National Certification Authority in Indonesia." MCI is currently considering its recommendations.
- On a related development, he provided an invitation list and actively encouraged participation to MCI's three-day seminar in February 2003 to 'merge' the Draft Cyber Law or Law on the Use of Information Technology ("Umbrella Cyberlaw" or *RUU-PTI*) with the Draft Laws/Provisions on Electronic Transaction and Electronic Signatures (*RUU-IETE*) and Cybercrime Laws (*RUU-TiPiTI*). The outcome is the Draft Law on Information, Communications and Electronic Transactions (*RUU-IKTE*) which will be passed through Parliament in 2003.
- After the above seminar in February 2003, MCI arranged a consultation meeting on the *RUU-IKTE* with several related government agencies and it is expected that MCI will drive the passage of the new draft law through the parliament by 2003.

### **The year ahead:**

- Strengthening "id-FIRST" and its combined CERT Task Force in their technical capability building with assistance from similar organizations in the global CERT/ICT-security community from the United States (such as Partnership for Critical Infrastructure Security-PCIS, Information Sharing & Analysis Center, ISAC), Canada (Critical Cyber Infrastructure Protection, Office of CIP) and Australia (Aust. IT Security Forum and AusCERT) and others.
- Finalizing the handbook for standard operating procedures for id-FIRST, ISP-APJII-CERT, Internet Kiosk Association (AWARI) and other ICT industry organizations.
- Conduct survey of the development of ICT security in Indonesia and obtain secondary data of comparable neighboring ASEAN countries.

## Partnership for Economic Growth (PEG)

### **Work Plan Activity 6 (postponed): Development of MoIT's Policy on Industrial Development through Cluster Efficiency Improvements in Indonesia: Advise and assist with the industrial development of privatization policy and of institutions for the leveraging inter-firm linkages in specific core industry clusters.**

The events of September 11, 2001, led to subsequent increase in the awareness of vulnerabilities of IT and global network security systems and the need of ways to overcome them. Indonesia is of no exception. Unless these systems are secured there is little that would attract domestic and foreign investment in Indonesian industries, particularly those that are rely increasingly on cybersecurity. As outlined in Work Activities 2 and 5 above, at the request of the Deputy Leader of the Economic Growth Team, Mr. Bruno Cornelio, Dr. Sulaiman began work on ICT/cyber-security and cybercrime issues as part of his business and investment facilitation in implementing the ICT Action Plan.

The work on cybersecurity had to take precedence in helping to maintain existing investments in the ICT industry, particularly in the ISP industry, and Work Activity 6 has been postponed until a later date.

### **Work Plan Activity 7: Development of MoCI's Policy on SME Development through Efficiency Improvements in the use ICTs in Indonesia: Advise and assist with the development of linkages between the ICT Action Plan and SME Action Plan.**

#### **Major Achievements:**

- Disseminate information from international conferences on ICT use in SMEs as part of the national competitive advantage issues and strategic national policy formulation as well as awareness raising on these issues to business leaders, MoCI and other agency officials.
- Set meeting agenda and proposed ideas for UNDP ICT for Development Program through Mr. Joy Daniels, ICT Focal Person from UNDP ICT Programme, Jakarta and encourage ties with Global Trade Network (a USAID-IESC sponsored program) through Ms. Boolorma Jacobs, GTN Indonesia representative, to discuss future joint-activities.
- Participated in the USAID-ECG "Open Access/SME" focus group with the other USAID partners and supported several major events on "ICT use for SME Business Development" organized by Asia Foundation in several regional cities.
- At the Secretary of MCI Prof. Kristiadi's request, coordinated and attended a meeting between him, the Director and Deputy Director of USAID, Mr. D. Terry Myers and Mr. John D. Lindborg (Nov. 13). The immediate outcome was the ICT-based relief event for handicraft SMEs in Bali which was conducted in January 2003. The Bali Recovery ICT (with PT Rajacraft.com as e-comm portal developer) project involved: a) an awareness raising seminar to to 400 arts and crafts SMEs in Bali; b) provision of Portal membership development and training program for 200 selected SMEs; c) Internet marketing to aggressively promote the 200 arts & crafts SMEs by Rajacraft.com. Prof. Kristiadi, Mr. Rudjito, CEO of Bank BRI and a number leading local speakers participated at the launch which was well received in the Bali region and nationally.

## Partnership for Economic Growth (PEG)

### **Work Plan Activity 8: Ad hoc requests: Respond to short run USAID/PEG, IICT and MoCI and USAID/PEG requests.**

#### **Major Achievements:**

- Planned and organized the ICT Bali Recovery Program (with PT Rajacraft.com as e-comm portal developer) for SMEs in Arts and Handicrafts.
- Coordinated several workshops, conferences or other special events on behalf of MoCI and USAID as well as meetings of the Indonesia Donor Group on ICT,
- Responded to ad hoc ICT-related requests from MoCI/IICT as requested in fulfilling its responsibilities as the GOI's executive body for the development and implementation of ICT in Indonesia.
- Provided technical support for the USAID-ECG 'West Java' focus group meetings.
- As part of the MTC handbook launch, sponsored a researcher to attend the Pacific Telecommunications Council (PTC) Conference in Honolulu, Hawaii.
- Facilitated several initial discussions toward proposals for PEG's In-Kind Grants for a conference on cybersecurity 'incidence' handling hands-on event organized by the Association of ISPs (APJII), a seminar on legal workshop on cybercrime, telecenter development and a seminar on accounting standards for telephone/cellular companies for the Assoc for Cell Telephone Operators (ATSI).

# Partnership for Economic Growth (PEG)

## **Individual Annual Progress Report & Report on Activities under the Ordered Departure**

*Grants Advisor/Project Administrator*  
*Advisor: Jeffrey Povolny*

*Report Period : 2002*

### **Introduction:**

The PEG Grants activity is designed to contribute to Indonesia's economic growth by strengthening economic policies and practices associated with increased openness to international trade and investment and strengthened domestic economic competition. The grants promote sustainable linkages between U.S. and Indonesian institutions whose work is focused on economic policy issues.

**Work Plan Activity 1:** *Manage Partnership Grants, review work plans, monitor progress, administer all grants PEG awarded directly, make recommendations for award to USAID for additional grants.*

During the period January 1, 2002 – December 31, 2002 PEG supported directly five grants: IRIS/LPEM (finished August 31, 2002), Georgetown-PBC (finished January 15, 2003), University of Bandung/University of Southern California (finished March 31, 2002), CSIS/Columbia University (finished April 30, 2002). A sixth grant to the Asia Foundation was completed August 31, 2001. Reports from individual grantees are available in the PEG Project quarterly reports.

In general, the PEG Grants program was highly successful with all grantees fulfilling their grant objectives. It is also clear that the Indonesian partners have been strengthened, their profiles as providers of competent analysis used for economic decision making has been enhanced and they are recognized for their competence. The relationships have been built and sustained and provide an excellent base from which to promote the growth of Indonesia's economy based on open trade, investment and domestic economic competition.

PEG also administered four grants for USAID that were awarded in late 2001 and early/mid 2002: Opportunity International, RAND, CARE Indonesia, Rural Development Institute (RDI), and four other cooperative agreements: the Asia Foundation, Siaga/ UGM, IRIS and U.San Francisco/CCLE. These cooperative agreements were awarded directly by USAID. PEG has ensured that the performance reports have been received and has provided support and recommendations as required. The reports from individual grantees are available in the PEG Project quarterly reports.

## Partnership for Economic Growth (PEG)

Note during the Ordered Departure: The activities of the grantees has been largely unaffected by the ordered departure. The exception is the RDI cooperative agreement where the in-country principal decided to discontinue full time presence in Jakarta in August, and to conduct grant activities from Seattle, using periodic short term visits to complete objectives. This approach appears to be yielding good results. Please refer to his quarterly reports.

**Work Plan Activity 2:** ***Audits.*** In addition to the audit requirements incorporated in the contract clause FAR 52.2152, the contractor shall implement the audit requirement for the grants awarded under this contract.

Note for Annual Report and for the Ordered Departure:  
This activity affects only PEG Grantees. All PEG Grantees' grants are audited as part of the grantees' annual institutional audits and therefore special audits that specifically address the individual PEG Grants are not required.

**Work Plan Activity 3:** **In Kind Support for NGOs, Civil Society Organizations, and Research Institutions, Small Grants Program:** Provide direct in kind payment for goods and services to suppliers as appropriate to support or assist Indonesian NGO's, civil society groups and research institutions to help them conduct activities and programs that further work of the long term advisers, assist implementation of a development strategy for parts of West Java, or to advance the agenda for setting foundations for rapid, sustainable and equitable economic growth.

This program has been highly successful, with 17 small grants awarded and completed during the year. A major emphasis of the small grants program has been the West Java Development Strategy that has leveraged the various programs and activities of the Mission, as well as those of other donors and stakeholders with an interest in West Java. Such leveraging was already implemented in the small grants program and has been continued under the West Java focus program. During the fiscal year direct payment awards have seen an increase of cost share born by the grantee rise from 25% (usually in-kind) to 45 - 50%, and includes the participation of private, NGO and other aid agency partners. For example, this was the case for the APJII (Association of Indonesian Internet Providers) seminars on ICT issues VOIP (voice over Internet protocol), Wireless IT Network Development and the Warung Informasi Teknologi (WARINTEK) Program held by the Ministry of State for Research and Technology –Deputy Minister For Utilization and Socialization Science and Technology (KRT).

Note for the Ordered Departure: In spite of the ordered departure 8 Small Grants were approved at the start of the 2002-2003 fiscal year, October 1, and are nearing completion. A review of 21

## Partnership for Economic Growth (PEG)

applications after the ordered departure yielded 13 for potential funding and the work plans and budgets of those are being finalized. As of this writing 9 have been finalized and awarded. A second review of small grants was programmed during the current PEG extension, but due to the ordered departure it has not been scheduled. Nevertheless we have received 10 applications, including one with potential from Aceh and others from West Java for Bekasi, Garut and Tasikmalaya.

Given that our goal was 20 approved and implemented applications, we were well within range when the evacuation order came, and may still be able to achieve it if the small grants are carried forward into a PEG extension. All other deliverables for the current PEG contract regarding this Activity have been achieved. This includes awarding Small Grants in two of three West Java kabupatens: all three target kabupatens have received more than one small grant; small grants have addressed the issues of providing more productive employment opportunities and resolving constraints to economic development; small grants have paired stakeholders with appropriate partners who are providing services and professional advice; small grants resources continue to be well leveraged.

**Work Plan Activity 4: Other Administrative Tasks.** The grants advisor/project administrator is to carry out other supportive/administrative tasks as assigned. This activity will include taking the lead for PEG on organizing and carrying out general conferences/workshops and related activities. Organize at least three major workshops and or conferences for the PEG component of the overall ECG team.

During the year a major conference and workshop on the Economics of Terrorism was held on May 7 and 8 at the Shangri-La Hotel in Jakarta. Proceedings are available on the Development Experience Clearinghouse website: [www.dec.org](http://www.dec.org). The Ordered Departure has stymied planning for other major workshops.

**PEG PROJECT  
ANNUAL TRAINING SUMMARY**

April 1999 - December 31, 2002

## PEG Project Training Summary

**Table A** Table A summarizes **all training events** undertaken by the **PEG Project TA Team** to date.  
The entries highlighted in **bold** describe training events completed during the current reporting period.

Dates of Training	Title of PEG-TA Training Activity	# Hours of Instruction	# of Male Participants	# of Female Participants	Total # of Participants	Total # of Person-Hours Taught	USA or Indonesia	PEG ST TA used?	PEG LT Manager	relevant USAID Intermediate Result
5-Apr-99	6-Apr-99 Competition Policy Workshop, Bali (PEG lecturer at grantee event)	6	19	6	25	150	IND		KB, PB	CORP
9-Apr-99	12-Apr-99 Lectures in Contracts Law at University of Indonesia Law School	7	22	12	34	238	IND		PB	CORP
5-May-99	5-May-99 Seminar on Lending for Micro- and Small-Scale Businesses	8	30	4	34	272	IND		TT	FIN
16-May-99	16-May-99 Competition Policy Workshop, SulSel (PEG lecturer at grantee event)	6	28	10	38	228	IND		KB, PB	CORP
24-Jun-99	24-Jun-99 Seminar on Business Development Services for SMEs	9	48	17	65	585	IND		TT, RR	FIN
26-Jun-99	24-Jul-99 Overseas Training: HIID Macroeconomic Policy & Management Course	160	3	1	4	640	USA		BT, BW	CORP
27-Jun-99	10-Jul-99 Competition Policy Law & Economics Workshop, Bali (PEG-ELIPS)	36	24	13	37	1332	IND		GG,SVM,PB	CORP
25-Jul-99	7-Aug-99 Overseas Training: HIID Global Financial Crises & Reform Course	80	4	0	4	320	USA		BT, BW	FIN
20-Aug-99	20-Aug-99 Seminar on Antidumping: A Look at U.S. Experience Lessons for Ind.	3	7	2	9	27	IND		JM, SM	CORP
23-Aug-99	23-Aug-99 Seminar on "Three Sides of Harberger Triangles"	3	7	3	10	30	IND		JM, SM	CORP
24-Aug-99	24-Aug-99 Seminar on Toward an Action Plan for Badan Perkreditan Rakyat (BPR)	8	52	13	65	520	IND		TT	FIN
31-Aug-99	31-Aug-99 Small & Medium Enterprise Caucus Meeting at KADIN	0.25	12	5	17	4.25	IND		RR	CORP
31-Aug-99	31-Aug-99 Seminar on Reservation Schemes for Small Enterprises at MinCoop	1.3	14	6	20	26	IND		RR	CORP
10-Sep-99	10-Sep-99 Lecture on Small Enterprises as an Essential Part of Ind. Dev. Policy	1.7	100	20	120	204	IND		RR	CORP
14-Sep-99	14-Sep-99 Lecture on Factors Affecting Competitiveness of SME at MinCoop	0.6	4	1	5	3	IND		RR	CORP
21-Sep-99	21-Sep-99 Research Design, Review on Improved Competitiveness of SME at MoC	0.25	14	6	20	5	IND		RR	CORP
25-Sep-99	3-Oct-99 The Third Annual Seminar on New Development Finance, Frankfurt	40	1	0	1	40	GER		TT	FIN
1-Nov-99	10-Nov-99 Internship and Field Study in Rural Banking-Manila	56	2	0	2	112	Phil		TT	FIN
3-Nov-99	22-Dec-99 Job-training during Field Research in November-December 1999	30	2	1	3	90	IND		RR	CORP
14-Dec-99	15-Feb-00 Development of Training Materials through Survey on BPR, BI-IBI-PEG	-	-	-	-	-	IND		TT	FIN
29-Jan-00	22-Feb-00 Customized Program on Micro-Finance in the US	120	2		2	240	USA		TT	FIN
8-Feb-00	8-Feb-00 Credit Guarantee Schemes for Cooperatives & SMEs, Yogya	8	70	18	88	704	IND		RR,TT	CORP/FIN
10-Feb-00	10-Feb-00 Seminar on Fiduciary Transfer Registry (w/Boggus & Davis) at MOLL	1	25	15	40	40	IND		PB	PUBGOV
21-Feb-00	24-Feb-00 Managing Capital Flow Volatility in a Volatile Fin. Environment, Bangkok	24	1		1	24	THAI		WW	PUBGOV
24-Feb-00	24-Feb-00 The Status of Commercial Bank Lending, BI, Jakarta	8	47	16	63	504	IND		TT	FIN
25-Feb-00	26-Feb-00 Pengembangan Micro-Finance, Yogyakarta	16	39	3	42	672	IND		TT	FIN
10-Mar-00	10-Mar-00 Lecture on Economic Reforms in Indonesia	2	25	25	50	100	IND		PB	CORP/PUBGOV
20-Mar-00	22-Mar-00 Bali Conference on Corporate Governance and Companies Law Revision	3	30	20	50	150	IND		PB	CORP/PUBGOV
12-Apr-00	12-Apr-00 SME Working Meeting at Aryaduta	8	40	10	50	400	IND		RB	CORP/PUBGOV
2-May-00	4-May-00 Seminar on E-Commerce at the Regent	22	41	17	58	1276	IND		SM	CORP
24-May-00	24-May-00 Competition Policy & Economic Growth: Issues & Options Conference (Surabaya)	1	50	30	80	80	IND		PB	CORP/PUBGOV
27-May-00	8-Jun-00 Exposure Tour to India and Thailand (Bank Indonesia)	64	1	1	2	128	India, Thai		TT	FIN
28-May-00	29-May-00 Money Laundering Draft Law Conference (Jakarta)	1	25	20	45	45	IND		PB	PUBGOV
11-Jun-00	24-Jun-00 Exposure Tour to Manila and Seoul (Bank Indonesia)	80	1	1	2	160	Manila/Seoul		TT	FIN
15-Jun-00	17-Jul-00 HIID Seminar on Macroeconomic Policy and Management	160	1		1	160	USA		WW	PUBGOV
22-Jun-00	17-Jul-00 Boulder Training on Micro Finance (Session I)	120		1	1	120	USA		TT	FIN
24-Jun-00	24-Jun-00 Regional Seminar for Ministry of Cooperatives & SME Development (Semarang)	6	163	26	189	1134	IND		RR, TT	PUBGOV
7-Jul-00	15-Jul-00 MBA Annual Meeting & Visit to ABA Headquarters (MoLL)	24	1		1	24	USA		PB	PUBGOV



April 1999 - December 31, 2002

## PEG Project Training Summary

**Table A** Table A summarizes **all training events** undertaken by the **PEG Project TA Team** to date.  
The entries highlighted in **bold** describe training events completed during the current reporting period.

Dates of Training	Title of PEG-TA Training Activity	# Hours of Instruction	# of Male Participants	# of Female Participants	Total # of Participants	Total # of Person-Hours Taught	USA or Indonesia	PEG ST TA used?	PEG LT Manager	relevant USAID Intermediate Result
17-Jul-00	28-Jul-00 HIID-Global Fin. System: Structure, Crises & Reform (Bappenas)	80	1		1	80	USA		WW	FIN
27-Jul-00	27-Jul-00 Seminar on SMEs as the Machines of Economic Wheel (Makasar)	2	75	5	80	160	IND		TT	FIN
7-Aug-00	18-Aug-00 Fiscal Decentralization Training at Georgia State Univ (Bappenas)	80	1	2	3	240	USA		WW	CORP/PUBGOV
8-Aug-00	8-Aug-00 Micro Finance Promotion Seminar (BI, Malang)	2	112	11	123	246	IND		TT	FIN
20-Aug-00	26-Aug-00 Competition Law and Policy (Yogyakarta)	40	4	2	6	240	IND		GG, DR	PUBGOV
6-Sep-00	6-Sep-00 Workshop/Dialogue on Consumer Protection (MOIT)	4	9	2	11	44	IND		DR	PUBGOV
6-Sep-00	7-Sep-00 Workshop on Banking Law (Makasar) (In-kind Grant)	2	35	21	56	112	IND		TT, GG	FIN
18-Sep-00	18-Sep-00 Semi-Workshop on Improved Human Resources-Menegkop (Surabaya)	8	201	43	244	1952	IND		RR, DR	PUBGOV
25-Sep-00	25-Sep-00 Leadership Training: Characteristics of Indonesian Inflation (BI)	2	30	10	40	80	IND		PR	FIN
7-Sep-00	7-Sep-00 Seminar on SMEs as the Machines of Economic Wheel (Malang) *)	2	100	50	150	300	IND		TT	FIN
24-Sep-00	24-Sep-00 Meeting in connection w/ USEmbassy Economic Seminar with ISEI *)	2	8	2	10	20	IND		GG	CORP/PUBGOV
2-Oct-00	6-Oct-00 USAID Admin. Compliance Requirements & Award Fin. Management	40	1	1	2	80	Manila		JP	FIN
4-Oct-00	5-Oct-00 LPEM-UI/USAID Annual Economic Conference	16	24	76	100	1600	IND		GG	PUBGOV
7-Oct-00	7-Oct-00 UGM-Economic Conference in Yogyakarta	2	60	25	85	170	IND	1	GG	PUBGOV
16-Oct-00	16-Oct-00 Lecture at MOIT-PUSDIKLAT in "Gains from Trade & Trade Protection"	4	21	7	28	112	IND		JM	CORP/PUBGOV
17-Oct-00	17-Oct-00 Lecture at PUSDIKLAT in "Globalization & implications for Indonesia"	4	21	7	28	112	IND		JM, SM	CORP/PUBGOV
19-Oct-00	19-Oct-00 Seminar on SME's Role and Obstacles in Exports	4	32	12	44	176	IND		DR	PUBGOV
30-Oct-00	9-Nov-00 US Patent & Trade Mark Visiting Scholar	72	2	1	3	216	USA		SM	PUBGOV
2-Nov-00	2-Nov-00 Seminar on SMEs as the Machines of Economic Wheel (Bandung)	2	42	18	60	120	IND		TT	FIN
6-Nov-00	6-Nov-00 Lecture at Universitas Lambung Mangkurat (Banjarmasin)	2	189	91	280	560	IND		DR	CORP/PUBGOV
15-Nov-00	23-Nov-00 AIM/ACE-CGAP Courses for Building Microfinance Institute Capacity	56	4	2	6	336	Manila		TT, RR	FIN
20-Nov-00	22-Nov-00 Workshop on Policy Analysis Application Using Input-Output Tables	24	21	8	29	696	USA	1	JM	PUBGOV
11-Dec-00	11-Dec-00 Workshop/Discussion on "Debt Restructuring Solutions to SM Debtors"	4	22	7	29	116	IND		TT	FIN
23-Jan-01	23-Jan-01 Seminar on Use of IT in BPR Development	8	21	2	23	184	IND		TT	FIN
29-Jan-01	29-Jan-01 Semi-Workshop on Improved Human Resources-Menegkop (Padang)	8	116	15	131	1048	IND		RR	PUBGOV
8-Feb-01	8-Feb-01 Seminar on SMEs as the Machines of Economic Wheel (Banjarmasin)	2	44	26	70	140	IND		TT	FIN
12-Feb-01	12-Feb-01 Semi-Workshop on Improved Human Resources-Menegkop (Medan)	8	109	11	120	960	IND		RR	PUBGOV
21-Feb-01	21-Feb-01 BI Workshop on the Work-out of Bad Debt	8	17	3	20	160	IND		TT	FIN
9-Mar-01	9-Mar-01 ICT Meeting (Private Sector)	3	12	0	12	36	IND		SM	CORP
14-Mar-01	14-Mar-01 ICT Meeting (Public Sector)	3	15	0	15	45	IND		SM	CORP/PUBGOV
19-Mar-01	20-Mar-01 In-House Training: Research Methodology for BI Research	16	4	8	12	192	IND		TT	FIN
22-Mar-01	22-Mar-01 Seminar on SMEs as the Machines of Economic Wheel (Semarang)	2	60	20	80	160	IND		TT	FIN
30-Mar-01	30-Mar-01 Business Development Services Concept for SMECDA	3	35	10	45	135	IND	1	TT	PUBGOV
3-Apr-01	3-Apr-01 Econ-Conference: Domestic Trade, Decentralization & Globalization	8	128	35	163	1304	IND	1	DR	CORP/PUBGOV
3-Apr-01	6-Apr-01 WTO Services Negotiations Course at MOPW, MOE, MOJHR	12	87	13	100	1200	IND	2	SM	PUBGOV
9-Apr-01	12-Apr-01 Training in WTO Services Negotiations	32	105	38	143	4576	IND	3	SM	PUBGOV
11-Apr-01	11-Apr-01 ICT Guidelines Working Group Meeting	4	28	3	31	124	IND	1	SM	CORP/PUBGOV
23-Apr-01	23-Apr-01 ICT Action Plan Working Group Meeting	4	26	4	30	120	IND	1	SM	CORP/PUBGOV

April 1999 - December 31, 2002

## PEG Project Training Summary

**Table A** Table A summarizes **all training events** undertaken by the **PEG Project TA Team** to date.  
The entries highlighted in **bold** describe training events completed during the current reporting period.

Dates of Training	Title of PEG-TA Training Activity	# Hours of Instruction	# of Male Participants	# of Female Participants	Total # of Participants	Total # of	USA or Indonesia	PEG ST TA used?	PEG LT Manager	relevant USAID Intermediate Result
						Person-Hours Taught				
24-Apr-01	24-Apr-01 Workshop: Business Information Network for Cooperatives & SMEs	8	72	23	95	760	IND		TT	CORP/PUBGOV
30-Apr-01	30-Apr-01 Semi-Workshop on Improved Human Resources-Menegkop (Manado)	8	118	23	141	1128	IND		TT	CORP/PUBGOV
10-May-01	10-May-01 Seminar: Telecommunications Independent Regulatory Body (IRB)	4	80	20	100	400	IND	1	SM	PUBGOV
11-May-01	11-May-01 Seminar: Attracting Foreign Investment to Indonesia	3	50	32	82	246	IND	1	SM	CORP/PUBGOV
14-May-01	15-May-01 Sponsorship for E-Government: ASPACTEL 2001 Panel Discussion	4	46	54	100	400	IND	2	SM	CORP/PUBGOV
17-May-01	17-May-01 Seminar: Enforcement of Law on Trademarks in Regional Autonomy	1	94	65	159	159	IND		TT	CORP/PUBGOV
14-Jun-01	14-Jun-01 Seminar on SMEs as the Machines of Economic Wheel (Medan)	2	115	35	150	300	IND		TT	FIN
18-Jun-01	21-Jun-01 ANE & Global Bureua's Asian Telecom. Regulatory Workshop	32	11	4	15	480	IND		SM	PUBGOV
20-Jun-01	20-Jun-01 Presenter at ISEI Seminar on Dev. of Small Business in Indonesia	2	143	57	200	400	IND		TT	CORP
24-Jun-01	20-Jul-01 Macroeconomic Policy and Management - Boston	160	2	0	2	320	USA		WW	PUBGOV
28-Jun-01	28-Jun-01 Conference: Domestic Trade in the Decentralization Era (Medan)	8	103	14	117	936	IND		DR	CORP/PUBGOV
2-Jul-01	13-Jul-01 Participants to Workshop on Legal Drafting held by ELIPS	80	9	7	16	1280	IND		DR, KB	PUBGOV
22-Jul-01	22-Jul-01 Regional Telecommunication Regulatory (MOIT)	8	80	20	100	800	IND	1	SM	CORP/PUBGOV
23-Jul-01	3-Aug-01 Fiscal Decentralization Training at Georgia State Univ , Atlanta	64	2	0	2	128	USA		SC	PUBGOV
25-Jul-01	26-Jul-01 Workshop on Review of SME Policies at Menegkop	16	35	25	60	960	IND	1	TT	PUBGOV
27-Jul-01	17-Aug-01 Microfinance Course, Boulder, Colorado	112	2	0	2	224	USA		TT	FIN
27-Aug-01	31-Aug-01 APEC WTO Basic Telecommunications Training Program	40	0	1	1	40	SIN		SM	PUBGOV
30-Aug-01	30-Aug-01 Seminar on SMEs as the Machines of Economic Wheel (Denpasar)	8	86	12	98	784	IND		TT	FIN
4-Sep-01	4-Sep-01 Bureutical Barriers for SME (Surabaya - Small Grant)	2	41	12	53	106	IND		DR	CORP/PUBGOV
6-Sep-01	7-Sep-01 Comparative Studies on Competition Law Workshop (Supreme Court)	16	48	12	60	960	IND	2	SC	PUBGOV
25-Sep-01	13-Nov-01 Key Issues in Domestic and International Trade	48	23	7	30	1440	IND		DR, WTJ	PUBGOV
1-Oct-01	7-Oct-01 ICT Week (Asia Pacific Council for Trade Facilitation & E-Business)	12	-	-	-	12	IND		IS	CORP/PUBGOV
14-Oct-01	15-Oct-01 Training on Database Software - Storage & Processing Techniques	16	4	1	5	80	IND		DR	PUBGOV
17-Oct-01	17-Oct-01 Seminar on SME's Perception towards Utilization of Communication and Technology and Business Environment in the Regional Autonomy Era	5	21	10	31	155	IND		DR	CORP/PUBGOV
21-Oct-01	3-Nov-01 Internship of Indonesian Team on External Audit (Bangladesh)	80	2	0	2	160	Bangladesh		TT	FIN
8-Nov-01	8-Nov-01 Regional Workshop in Minahasa	8	51	23	74	592	IND		DR, CM	PUBGOV
9-Nov-01	9-Nov-01 Donor Consultative Meeting (DCG) on ITC	2	-	-	-	2	IND		IS	PUBGOV
19-Nov-01	23-Nov-01 APEC Capacity Building on WTO Issues (South Korea)	40	1	0	1	40	South Korea		IS	CORP
5-Dec-01	5-Dec-01 Internet and the Small Business Development Conference	2	-	-	-	2	IND		IS	CORP/PUBGOV
5-Dec-01	5-Dec-01 Seminar on Bank Secrecy	4	37	23	60	240	IND		TT	CORP/PUBGOV
13-Jan-02	17-Jan-02 PTC's 24th Annual Pacific Telecommunications Conference	40	1	0	1	40	USA		IS	CORP
25-Jan-02	25-Jan-02 Workshop on Interconnection (Kempinsky)	4	29	7	36	144	IND	1	SM, IS	CORP
9-Feb-02	9-Feb-02 Seminar: Optimizing the Potential of Jakarta in Implementing Decentr.	2	143	57	200	400	IND		DR	PUBGOV
18-Feb-02	19-Feb-02 E-Government and E-Governance: Theory, Practice and Next Steps	16	2	0	2	32	Singapore		SM, IS	CORP/PUBGOV
20-Feb-02	20-Feb-02 Seminar: Free Trade Barriers and Investment in East Java (In-Kind Grant)	2	37	13	50	100	IND		DR	PUBGOV
4-Mar-02	4-Mar-02 Seminar: Roadmap to E-Government in Indonesia	2	156	45	201	402	IND		IS	PUBGOV
12-Mar-02	14-Mar-02 In-House Training: Research Methodology for BI Research (Anyer)	24	17	4	21	504	IND		TT	FIN

## PEG Project Training Summary

April 1999 - December 31, 2002

**Table A** Table A summarizes **all training events** undertaken by the **PEG Project TA Team** to date.  
The entries highlighted in **bold** describe training events completed during the current reporting period.

Dates of Training	Title of PEG-TA Training Activity	# Hours of Instruction	# of Male Participants	# of Female Participants	Total # of Participants	Total # of Person-Hours Taught	USA or Indonesia	PEG ST TA used?	PEG LT Manager	relevant USAID Intermediate Result
12-Mar-02	14-Mar-02 Policies for Regional Econ. Dev. In Decentralizing Era (IRIS-LPEM-PEG)	6	71	14	85	510	IND		DR, CM	PUBGOV
18-Mar-02	19-Mar-02 Savings & Loan Coop.s in the Implementation of Regional Autonomy	12	30	9	39	468	IND		TT	CORP/PUBGOV
18-Mar-02	20-Mar-02 In-House Training: Research Methodology for BI Research (Anyer)	24	15	7	22	528	IND		TT	FIN
18-Mar-02	22-Mar-02 Government Securities Seminar and Study Tour	40	7	0	7	280	USA		SC	FIN
20-Mar-02	21-Mar-02 Seminar on Legislative Drafting (IRIS) in Jayapura	2	20	5	25	50	IND		DR	PUBGOV
27-Mar-02	28-Mar-02 Seminar on Employment Friendly Labor Policies for Economic Recovery	16	51	10	61	976	IND	3	CM, KB	PUBGOV
27-Mar-02	27-Mar-02 Lecture on the Importance of Promoting a Conducive Business Environ.	4	76	74	150	600	IND		DR	CORP
28-Mar-02	28-Mar-02 Seminar & Exhibition on Wireless LAN (Yogyakarta)	2	201	31	232	464	IND		IS	CORP
21-Apr-02	2-May-02 50th Annual Spring Meeting of ABA and Visit to FTC	240	5	2	7	1680	USA		SC	PUBGOV
11-Apr-02	11-Apr-02 Seminar: Indonesia's Broadcasting Draft Laws	2	40	20	60	120	IND		IS	CORP/PUBGOV
29-Apr-02	29-Apr-02 Lecture: E-commerce Law and ITC Development	2	35	15	50	100	IND		IS	CORP/PUBGOV
3-May-02	3-May-02 Lecture: Learning Global Best Practices in ICT Policy & Regulation	2	25	15	40	80	IND		IS	CORP/PUBGOV
7-May-02	7-May-02 Conference: The Economic Cost of Terrorism: Indonesia's Responses	14	194	46	240	3360	IND		JP	PUBGOV
27-May-02	29-May-02 24th American Committee on Asia Economic Studies Conference	24	1	0	1	24	Beijing		WJ	FIN
6-Jun-02	6-Jun-02 Presentation: Restructuring Issues in Ind. Telecom.s Market (Amcham)	2	19	1	20	40	IND	1	SM	PUBGOV
20-Jun-02	21-Jun-02 The 4th IRSA International Conference (Bali)	16	59	21	80	1280	IND		DR	CORP/PUBGOV
19-Jul-02	20-Jul-02 Workshop on the Steel Industry in Northeast Asia (ICSEAD)	2	-	-	-	-	Japan		WJ	PUBGOV
17-Aug-02	23-Aug-02 Combating Cyber-Crime: APEC TEL 26th Workshop	48	2	0	2	96	Russia		IS	PUBGOV
12-Sep-02	12-Sep-02 Local Government Regulations Seminar (Lampung)	8	60	10	70	560	IND		DR	PUBGOV
30-Sep-02	30-Sep-02 Seminar: Study in Cooperatives Supervision in Reg. Autonomy Implementati	8	62	3	65	520	IND		TT	PUBGOV
1-Oct-02	4-Oct-02 A/NE Regional ICT Coordinators Workshop	32	1	0	1	32	Jordan		IS	CORP/PUBGOV
11-Oct-02	12-Oct-02 Conference: Securing the Info. Sociation: A European Policy Agenda	16	1	0	1	16	Netherland		IS	CORP/PUBGOV
18-Oct-02	18-Oct-02 Seminar: Broadband Communications Policies (ITB, Bandung)	8	7	0	7	56	IND	1	SM	CORP/PUBGOV
4-Nov-02	5-Nov-02 8th International Convention of the East Asia Econ. Assoc	16	1	0	1	16	Malaysia		WJ	FIN
18-Nov-02	18-Nov-02 Seminar: Review of Local Government Regulations (Manado)	8	47	8	55	440	IND		DR	PUBGOV
19-Nov-02	22-Nov-02 Conference: Improving E-Government	24	1	0	1	24	USA		IS	CORP/PUBGOV
28-Nov-02	28-Nov-02 Seminar: Review of Local Government Regulations (Denpasar, Bali)	8	34	7	41	328	IND		DR	PUBGOV
17-Dec-02	17-Dec-02 Seminar: Minimum Wage, Industrial Relation and Labor Issues	8	45	11	56	448	IND		KB	PUBGOV
Total	reporting period		1495	435	1930	14718				
Total	to date		5548	1829	7377	57191.25				
	<i>total number of training events from PEG-TA</i>	140		25%		<i>total person-hours of training from PEG-TA</i>				
				<i>average participation by women</i>						

## PEG Project Training Summary

January 1, 2002 - December 31, 2002

Table B summarizes all training events undertaken by the PEG Project Grantees to date.

PEG Grantee	<u>Training Events:</u> policy workshops, conferences, <i>Forda</i>					<u>Participation in Training Events:</u> numbers of participants, % women				
	Q-1	Q-2	Q-3	Q-4	total 2002	Q-1	Q-2	Q-3	Q-4	total 2002
The Asia Foundation: PEPR	43	32	20	27	122	#	837	837	707	844
IRIS and LPEM			completed			%	23%	23%	20%	20%
University of Gajah Madah	1	4	completed		5	#	43	285		328
Udayana University and USF	3	11	8	7	29	%	22%	22%		
The Asia Foundation: PRISM			completed			#	88	311%	284	287
IRIS and LPEM: Gov.Fis.Dec.	32	9	3	1	45	%	35%	19%	19%	16%
PBC, CILPS & Georgetown U.	6	7	9	2	24	#	225	356	93	35
CSIS and Columbia Univ.	2	completed 4/30/02			2	%	14%	13%	14%	6%
USC and ITB	1	4	completed		5	#				
USoC and BEJ, UI			completed			%	30	326		356
RAND and UGM	2	3	2	3	10	#	20%			
RDI (Land Law Initiative)	2	5	5	0	12	%				
OI and Dian Mandiri				2	2	#				
						%				
				year to date	256				year to date	4571
				total 1999-2001	1114				Total 1999-2001	26717
				total training events, 1999 to date	1370				total people trained, 1999 to date	31288

**PEG - SMALL GRANTS ACTIVITY REPORT**  
**July 01, 2000 - December 31, 2002**

No.	Organization		Date Activity	Location of Activity	# of Participants			Type of Activity					Material Developed				Intermediate Result				Follow Up
	Name	Type			M	F	Total	Wrkshp	Smnr	Train	Tlkshw	Res.	Study	Survey	Handout	Rprt.	IR-1	IR-2	IR-3	IR-4	
1	Pusat Studi & Pengembangan Koperasi (Yayasan Risalah)	GOV-NGO	18 July '00	Jakarta	34	17	51														Yes**)
2	Institut Hukum & Bisnis Indonesia	EDU	07-08 Sep '00	Makassar	33	20	53														
3	Remy & Darus Law Firm	CORP.	03 Oct '00	Jakarta	112	45	157														
4	Fakultas Hukum, Univ. Mataram	EDU	09-18 Nov '00	Mataram	45	5	50														Yes**)
5	Min.of Cooperative & SME Dev.	GOV	26 Oct '00	Jakarta	60	15	75														Yes**)
6	Himpunan Usaha Kecil Eksportir Indonesia (HUKEL)	ASSOC.	08 Nov '00	Jakarta	35	18	53														Yes**)
7	Yayasan Lembaga Pendidikan Triasa (YLPT)	NGO	18 Nov '00	Bandung	79	42	121														Yes**)
8	Perkumpulan untuk Kajian & Pengembangan Ekonomi Kerakyatan (PKPEK)	NGO	18 Dec '00	Yogyakarta	38	20	58														Yes**)
9	Deputy Technology Efficacy & Socialization, Meneg RISTEK	GOV	15-19 Jan '01	Jakarta	23	10	33														Yes**)
10	Pusat Studi Hukum dan Kemasyarakatan (GRAHA KIRANA)	EDU	30 Jan '01	Medan	248	76	324														
11	Yayasan Cipta Mandiri	NGO	06-07 Feb '01	Wonogiri	87	14	101														Yes**)
12	Yayasan Wahana Insan Mandiri (NANDIRI)	NGO	24-25 Feb '01	Yogyakarta	78	31	109														Yes**)
13	Lembaga Konsultasi & Bantuan Hukum (LKBH)-Univ. Islam Ind.	EDU	26 Feb - 3 Mar '01	Yogyakarta	26	13	39														
14	PT Agrindo Aneka Consult	NGO	29 Mar '01	Jakarta	131	42	173														
15	Yayasan Pendidikan Aryanti	EDU	25 Apr '01	Bandung	147	69	216														
16	PerNetworks	CORP.	26-27 Apr '01	Bandung	60	22	82														Yes**)
17	Lembaga Studi Kemasyarakatan & Bina Bakat	NGO	01-02 May '01	Solo	53	16	69														Yes**)
18	Fakultas Hukum, UNRAM	EDU	13-17 May '01	Mataram	67	8	75														Yes**)
19	Yayasan LP Triasa	NGO	17 May '01	Semarang	93	63	156														
20	PIRAC (Public Interest Research & Advocacy Center)	NGO	28 May '01	Jakarta	35	9	44														Yes**)
21	Indonesian Small Medium Enterprises Association (ISMEA)	ASSOC.	03 July '01	Jakarta	61	9	70														
<b>Sub-total (1)</b>					<b>1545</b>	<b>564</b>	<b>2109</b>														

No.	Organization		Date Activity	Location of Activity	# of Participants			Type of Activity					Material Developed				Intermediate Result				Follow Up
	Name	Type			M	F	Total	Wrkshp	Smnr	Train	Tlkshw	Res.	Study	Survey	Handout	Rprt	IR-1	IR-2	IR-3	IR-4	
22	Yayasan Adil Sejahtera (YAS)	NGO	7,14,21 Jul '01	Makassar	110	23	133														Yes**)
23	Institut Hukum Bisnis Indonesia	EDU	08-10 Aug '01	Makassar	60	18	78														Yes**)
24	Yayasan Cipta Mandiri	NGO	13 Aug '01	Solo	83	9	92														Yes**)
25	Kantor Menteri Negara Riset dan Teknologi (RISTEK)	GOV	20-24 Aug '01	Jayapura	121	32	153														Yes**)
26	Akademika Center	NGO	27 Aug '01	Bekasi	70	23	93														
27	Himpunan Insan Pencinta Bung Karno (HIP-BK)	NGO	30-31 Aug '01	B.Lampung	43	4	47														Yes**)
28	PUPUK (Perkumpulan untuk Peningkatan Usaha Kecil)	NGO	04 Sep '01	Surabaya	41	9	50														Yes**)
29	PT Agrindo Aneka Consult	NGO	03-04 Oct '01	Bogor	181	72	253														
30	LSK-Bina Bakat	NGO	3,4-6 Oct '01	Solo	37	8	45														Yes**)
31	Universitas Islam 45 (Unisma)	EDU	16-29 Oct '01	Bekasi	26	2	28														
32	Lembaga Penelitian Universitas Sebelas Maret	EDU	26 Oct '01	Surakarta																	Yes**)
33	FORDA UKM - Sulawesi Selatan	ASSOC.	06 Nov '01	Makassar	55	15	70														
34	LPM Bulletin Keadilan - Fakultas Hukum Universitas Mataram	EDU	13-14 Nov '01	Mataram	39	10	49														
35	Perhimpunan Bank Perkreditan Rakyat Indonesia (PERBARINDO)	ASSOC.	06 Dec '01	Jakarta	37	3	40														
36	Regional Economic Development Institute (REDI)	NGO	20 Feb '02	Surabaya	37	13	50														Yes**)
37	Asosiasi Penyelenggara Jasa Internet Indonesia (APJII)	ASSOC.	21 Feb '02	Jakarta	227	26	253														
38	Perhimpunan Bank Perkreditan Rakyat Indonesia (PERBARINDO)	ASSOC.	09 Mar '02	Malang	161	34	195														
39	Pusat Kajian Pilihan Penyelesaian Sengketa - Univ. Andalas (PKPPS)	EDU	12 Mar '02	Padang	49	6	55														
40	Pusat Inkubasi Bisnis Usaha Kecil (PINBUK)	NGO	13 Mar '02	Jakarta	120	28	148														Yes**)
41	Komite Pemantauan Pelaksanaan Otonomi Daerah (KPPOD)	NGO	19 Mar '02	Jakarta	43	11	54														Yes**)
42	Assosiasi Penyelenggara Jasa Internet Indonesia (APJII)	ASSOC.	28 Mar '02	Yogya	201	31	232														Yes**)
Sub-total (2)					1741	377	2118														

[illegible]

**\*\* NOTES ON FOLLOW-UP :**

1. A draft for revision of Law No. 25/1992 submitted to Ministry of Cooperative for further processing into a bill.
4. FH-UNRAM plans to conduct similar training for more cooperatives in Sumbawa.
5. Recommendations from the workshop submitted to Min. of Industry & Trade and Directorate General of Intellectual Property Right, MOLL for further action.
6. Further dialogue with MOIT is underway.
7. Similar workshop is proposed for Central Java to be held in Semarang.
8. PKPEK is planning to hold similar talkshow on other issues relating to SMEs development.
9. Similar training will be conducted in the regions of RISTEK priority.
10. Further dialogue among local government, SMEs, NGO is underway. Seeking assistance for follow-up.
11. Recommendations from the workshop presented to the local government, similar activity continues.
16. PERNetwork require to make some piloting training program specially for low cooperative computer capability.
18. "Kelompok Usaha Bersama" which is the frontliners of cooperative must be given the training on Management and Knowledge on Business Law.
20. PIRAC will encourage the Government to solve the agendas on consumer rights. The role of government to speed up development on consumer protection is very important.
22. The Government of Makassar City needs to re-implement the system of One Stop Service for Small Business.
23. This workshop will produce a Regional Regulation (PERDA) format on Capital Investment.
24. Cipta Mandiri will send the recommendations to all participants via coordinators and Cipta Mandiri will be ready to become a partner for any discussion if requested.
25. RISTEK must be able to take initiative as the facilitator and consultant for Pusat Studi Irian Jaya (PUSDI).
27. This workshop has produced some recommendations for the Government to compile policies on land cases.
28. (a) To conduct a study on "The impact of permit beurocracy and retributions against small business performance in East Java; (b) Provide assistance to Dinas Perijinan Kabupaten Sidoarjo; (c) Advocacy and campaign for designing the Regional Regulations (PERDA)
30. Jaringan Usaha Mikro (JARUM) Surakarta has been established to provide policy and compile strategic plan for the Small Businesses in Surakarta.
32. FH-UNS in cooperation with KADIN Kota Surakarta will form the Badan Arbitrase in Kota Solo.
36. REDI will conduct a dialogue with entrepreneurs, regional government and DPRD on the cases of trade and investment in East Java based on this seminar and study report .
40. (a) Needs to form an Institution as clearing system or lender of the last resort; (b) Needs to have Institution for the BMT umbrella and advisory; Needs to speed up to produce of LKM Law for guarantee and law assurance for business of BMT.
41. KPPOD has reviewed 340 PERDAs.
42. The Government will give lincenses to 5 VoIP (Voice over Internet Protocol) operators.
44. YAS sees that there is a need to review of Decree No. 316/KMK.016/1994 issued by Ministry of Finance, on Pengelolaan Dana PUKK BUMN.